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Variations in supplier relations operating within voluntary groups; historical perspectives on relationships and social justice in the independent retail sector.

Keith Jackson, Doctoral Candidate, University of Cumbria

Professor Helen Woodruffe-Burton, Newcastle Business School, Northumbria University

Abstract

The convenience store sector evolved from the variety of small retailers operating in the 1950’s and is still dominated (in store numbers) by SMEs operating smaller stores (usually smaller than 3,000 sq ft.); trading extended hours; with a base around confectionery, tobacco and news (CTN) and off licence. In the 1980s as more independent retailers adopted the new convenience format the convenience sector spread geographically to fill the increasing demand for local stores with extended hours. Once geographic saturation was reached the main independent supply chains within the convenience sector adopted either a broadly coordinated embedded network through voluntary symbol groups or a broadly cooperative supply chain through cash and carries and delivered wholesalers. Various writers have argued that networking and the building of social capital (as in the voluntary symbol groups) is vital for SME growth whilst Jack and Anderson (2002) have demonstrated that entrepreneurs embedding themselves within a network may be sacrificing their entrepreneurial capabilities.

Around 2000, the major retail multiples and the COOP entered the convenience sector. By using their extensive knowledge of Supply Chain Management (SCM) they were able to gain commercial advantage over the existing supply chains which focused these chains on the need for economic efficiency. This meant that the businesses within the voluntary groups had to choose between the mechanisms highlighted by Payan (2000) of economic efficiency with increased dependence on the centre and the mechanisms of social justice within the group that allowed independent actions within the group. Possibly because of these mechanisms, distinct differences in the types of relationships started to appear between suppliers and independent retailers within each of the voluntary groups. New (1997) highlighted the two opposing forces facing independent retailers operating within voluntary groups; the drive for profit for the whole group and the desire for a perceived fair share of that profit for individual members of the group.

This paper introduces work currently under way to investigate causal configurations of market forces and the social history of a sector that jointly dictate the relationship choices of SMEs within the supply chain. Envisaging a critical realist approach, the aim of the research is to develop understanding of current relationship choices and identify causal mechanisms that would explain how these choices affect independent retailers today.
Introduction

The IGD (2010) put the annual UK sales total for the 48,000-plus Convenience stores at £32.1bn which is 21.2% of the total UK grocery sales (internet sales account for £4.8bn, traditional retail for £6.1bn and hypermarkets, supermarkets and superstores for £107bn). In the late 1990s this market was entered by the retail giants of the UK whose coordinated supply chains were 'apparently' more economically efficient than the original independent retailers and whose entry are forcing these retailers to consider the style of supplier relationship they should adopt.

Balanced with the economic factors the supply chains have also to meet the changing needs of their end consumers. The middle of the first decade of this century brought two main consumer forces to this market place, the increased awareness of the need for global social justice through 'fair trade' is balanced against the stark new economic reality post the 2008-9 banking crisis. This means the end consumer is now more globally aware than any previous generation balanced with a growing uncertainty of the credible sustainability of the modern service and retail supply chains.

In 2011 the main supply chains to the independent sector are through:

- Traditional cash and carries that have moved to a strong ‘own brand’ offer that often includes ‘branding’ the store fascia (Bookers with Premier label; Best One; NISA groups Today label; A G Parfett & Sons Ltd (who are members of Landmark group) with Go Local Brand; Bestway (trading as Batleys in Scotland) with Best In Label; Landmark with Lifestyle and Express brands); Palmer & Harvey

- Buying Groups (PGMA the buying group for the SGF (Scottish grocers Federation); YIGA (Yorkshire Independent Grocers Association); Red Orange (now part of Costcutter)

- Symbol Groups (SPAR (with 6 independent Regional Distribution Centres across the UK, two of which, Hendersons and Blakemores also operate within the Landmark wholesale group); Budgens and Londis (part of the Musgrave group); Costcutter (now 51% owned by Bibby’s); Mace (ran by Palmer and Harvey in the UK); Select & Save (supplied by NISA); JET service stations (supplied by Conoco Phillips); Key Stores (Scotland only))

- Small Symbol Groups (independent chains that are increasingly being purchased by the multiples or the COOP for example Mills Group purchased by TESCOs subsidiary One Stop in 2010 or have joined one of the symbol groups for example Red Orange joining Costcutter in 2010) Largest national chain left is Martin McColl’s, other example is the 47 store chain One o One stores based around Glasgow

Independent retailers have also formed mutual support groups that may not supply goods directly but offer significant networking opportunities for their members (Lakeside Group mainly SPAR and Budgens retailers in the South of England;
Scottish Grocers Federation; Yorkshire Independent Grocers Association and the Association of Convenience Stores).

The main exit for larger independent retailers is through sale of business to the multiples or the COOP:

- TESCO: One Stop, Mills Group
- Sainsbury: Bells Stores, Jacksons Stores and JB Beaumont & SL Shaw Ltd
- COOP: Alldays, Botterils, Solowski’s

This buying into the convenience sector continues with ASDAs purchase of NETTO with the intention of converting these stores into their ‘convenience offer’. Morrisons and Waitrose are set to enter the convenience sector in 2011.

This research seeks to see how the retailers in the traditional supply chains within the convenience sector develop relationships that match the needs for economic sustainability with their need for social justice within the supply chain. The research will also have to consider points where the need for economic survival over rides the altruistic instincts of the business. To achieve this balance the chains may have to adopt the more embedded coordinated practices used by their larger competitors without destroying the innovative and specialised services their individual retailers have been able to produce as part of a ‘socially just’ cooperative supply chain. This research will demonstrate how the balance between economic efficiency and social justice changes as a market matures and pose the question does an individual supply chain within a market place reflect the relationship choices that an individual firm has within a supply chain. The factors that influence the use of resources within a voluntary group of independent businesses pose interesting and fundamental questions about the balance of power between groups and individuals and attitudes towards the collective good and whether a model based on altruistic collective good can survive in a capitalist system when challenged by large commercial organisations. By studying the causality of variations in suppliers’ relations the research will add knowledge to the nature of coordination and cooperation within the supply chain and may prove useful to individual owner/managers as they build their relationships within the modern supply chain.

1. Supply chain relationships and interactions; a historical perspective

In this paper, the authors argue that researchers studying the dynamics of modern supply chains are continuing the work of social researchers who defined society in relation to the knowledge relevant at the time, from ancient Greece to the modern day. Here it is demonstrated that one way of viewing the supply chain is as society in miniature; each chain has its own cultural history and social rules; each one is trying to maintain its society in the face of outside competition; each chain must meet the age old conflict of balancing the needs of the group with the needs and aspirations of the individual.

Plato (427-347 BC) and Aristotle (384-322 BC) through observations defined society as a living organism where the constituent parts related to a unified whole based around different social groups with varying degrees of skills and power.
Plato defined the supporting the roles of community and the individual (Translated in Field, 1969 pp50-51):

"the function of a community is to satisfy the needs of its individual members: ‘it is our need that will create it’ and it is necessary for that because the individual is not capable of supplying all his needs for himself by his own unaided efforts, but requires the co-operation of others to which he contributes his share in return."

To study these roles Aristotle demonstrated that we had to accept the objective view when considering the individual and the subjective view when we were considering the community:

"If there is nothing apart from individuals, there will be no object of thought, but all things will be object of sense, and there will not be knowledge of anything, unless we say that sensation is knowledge." (Translated by Smith & Ross 1908 p999b 1-5)

These views would be transferred into prescribed knowledge which would reflect the supply chain management field of knowledge and the descriptive knowledge that reflect the study of the functions of the supply chain:

"If then, a man has the theory without the experience and knows the universal but does not know the individual included in this, he will often fail to cure; for it is the individual that is to be cured. But yet we think that knowledge and understanding belong to art rather than experience, and we suppose artists to be wiser than men of experience...and this because the former know cause, but the latter do not. For men of experience know that the thing is so, but do not why, while the others know the ‘why’ and the cause.” (Translated in Smith & Ross 1908 p981a 20-30)

In what might be one of the earliest attempts to balance the needs of the individual with those of the group; (in his last work) Plato suggested laws that would attempt to control the individual’s greed when they offered services to their community (Plato obviously had little respect for retailers who traded for profit, one wonders what he would have made of today’s commercial world):

"The great multitude of men are of completely contrary temper-what they desire they desire out of all measure-when they have the option of making a reasonable profit, they prefer to make an exorbitant one." (Translated in Hamilton & Cairns, 1961 p1471)

Plato appears to have recognised the danger of a non restricted retail system run by traders with purely economic aims and in his laws, he did suggest that the retail trade should be controlled by a stringent legal system that could include price control or placed in the hands of women as they would ‘conduct business on principles of strict integrity’.

1.1. Adding a time dimension to relationships

Plato and Aristotle helped define the division of value from the input of labour and resources which started to explain the reasons for social inequality and this is still applicable and studied within today’s supply chains. The two dimensions of the
supply of labour and resource interact with the third dimension in the supplier-buyer relationship of time. It has been demonstrated in supply chain research that buyer-supplier relationships alter as the product ‘matures’ in the market place (Heng, Wang & He, 2005 and Leonidou, Philhawadana & Theodosion, 2006). The effect of time was considered in the eighteenth century when western philosophers started to consider the effect of society and its previous actions on the relationship between the individual and the group.

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Hobbes, Locke and Rousseau considered the effects of history seeing society as a product of human actions in the past and introducing the studied effect of private property on society. This argument was developed by Vico humanistic historicism in 1725 in ‘The New Science’ by applying scientific methods to the study of the history of the development of society he defined three ages of man: the age of Gods; the age of Heroes and the age of Man. Vicos ‘ages’ could easily be applied to the development of firms within the convenience sector from the age of the visionaries who started the concept to the age of the entrepreneurial heroes who founded the original chains to the age of the bureaucratic men who transformed the entrepreneurial firm into the major actor within todays market place.

Montesquieu (1734) argued that Vico’s belief that man was totally in control of his destiny. In his study on the rise and fall of the Roman Empire he highlighted that environmental factors do have a significant effect on the development of society. This observation could be applied to modern supply chains, many very effective supply chains have to adapt to environmental pressure (the modern petrochemical industry and the inevitable decline in oil reserves been a case in point).

The age of enlightenment developed in the cultural stability of eighteenth century Scotland is represented by the works of Adam Smith (1723-90), Adam Ferguson (1723-1816) and John Millar (1735-1801). The enlightenment considered the effects of modernity on society; it built on Montesquieu and recognised that because of modern industrial techniques and rapidly increasing population that society was changing at a much greater rate than at any other time in history and so new rules were appearing. This meant societies phases went from Vico’s ‘ages’ to Fergusons, savage; barbaric and polished; or Millar and Smiths, hunting, pastoral, agricultural and commercial. Smith identified the divisions of society as three clear classes: landowners, capitalists and labourers deriving their revenue from rent, stock and wages respectively. With clear classes and revenue sources identified, Millar argued that for society to develop inequalities and thus the division of power had to exist with the division of labour becoming essential, Montesquieu writing at the start of the industrialising process had not fully foreseen this shift in power.

This age highlighted the importance of the power over the different types of assets, finance and labour all of which are the key issues in today’s supply chains. Indeed by
considering society as a machine rather than an organism Ferguson suggested that individuals strive to remove inconveniences and improve the situation thus driving for an efficient supply chain. Ferguson also acknowledged the importance of competition between nations in the drive for modernity, this is now transferred to the competition between international supply chains. This drive was led without regard to the future; the direction was the result of reactions to current problems rather than strategic planning by a central function. So supply chains viewed from the modernity perspective are the results of the power struggles between the unequally matched actors within the chain striving to improve their situation in relation to competing chains.

2.Developing a system to identify and understand relationships

Positivism born in the culturally unstable background of late eighteenth century France represented by Comte (1798-1857) used science as the basis of research introducing statistical analysis to social theory in a search for causal explanations of social phenomena. This drive for a clear truth opposed the fundamental individualistic approach of the enlightenment philosophy is reflected in the positivist management theories of the 1980s that strove to drive western industry forward by using the management answers defined by the successful Japanese manufacturing supply chains. Empiricism represented by Burke (1729-97), Louis de Bonald (1754-1840)and Joseph da Maistre (1754-1821) looked to lose social inequality and thus rejected the individualistic approach of the enlightenment philosophy and looked to driving man back to an organically whole society. So eighteenth century society was now recognised as having to meet the individual needs of a more educated class of capitalists whilst maintaining a safe and sustainable environment for the labour class. There was still however support for the status quo for the landowners who still maintained a significant political power through the inherited social class system. This reflects the state of flux of power between firms in modern supply chains where different firms and chains are all at different points within their economic cycles.

2.Relationships and supply chains

It is acknowledged that there is a need for economic efficiency within the supply chain (Tan, 2000) and that all markets are embedded in social relations between customers and suppliers (Hingley 2005). Actions within these social relations form social networks (Mikkola, 2008); failures of these networks will lead to failure of the supply chain.

This was recognised as early as the nineteen forties by Duddy & Revzan who matched the two forces of economic equilibrium and social need: “the changing patterns of institutional organization and the cultural environment within which exchange takes place are of equal interest with any laws of price or any idea of economic equilibrium.” (From Zineldin, 1998).

As global markets correct themselves firms find themselves in new situations that their supply chains must adapt to. Inevitably as one supply chain adapts to the new situation and thrives others will mimic its actions and the original strategic advantage gained by the initiator will be lost. So the relationship models used by successful
firms have been adapted to suit the prevailing economic markets; the supply chains products life cycles and the actions of competing supply chains (Cousins et al 2006).

This results in supply chains evolving or devolving their relationships within their chain as their supply chains influence shifts within their market place. Morris (2005) produced a model based on Hunt et al (2002) five key mediating variables (KMV) that demonstrated how relationships can change within a supply chain. It is recognised that the shift in power between producers and buyers within the chain depends on the life cycle of the product and this will also have an influence on the type of relationship adopted by the actors.

2.i.Requirements for successful relationships within a supply chain

Relationship theory within the supply chain has evolved from an understanding of the function of SCM as a strategy to gain competitive advantage in an elastic expanding market to the need for supply chain sustainability in a saturated global market place. This has produced a hierarchy of needs for relationships within a successful supply chain. The hierarchy moves from actors building on an initial commitment to a common goal to the point where collaboration within the chain allows individual actors to take leadership of that chain. This action happens when outside forces and market cycles dictate the shift of power within the chain either horizontally between retailers or vertically up or down the supply chain from supplier to consumer. (Fig. 1).

![Figure 1: Hierarchy of needs for a successful supply chain](image-url)

The above model draws upon similar frameworks; for example, a model for trust within a buyer seller transaction proposed by Hofstede (2010) who suggests three objects of trust (product, seller and market segmentation) within the European food sector, these objects all have dimensions which effect the level of trust. The relationship between buyer and seller depends on the capability of the seller, their relationship (both between individuals and between the firms), the reliability of the seller and their reputation. Ultimately a sustainable working relationship depends on trust, Jones, Fawcett, Fawcett and Wallin (2010) demonstrated that trust is a complex concept and argued that only the signals in the trust building process could be measured to give an idea of the level of trust within a supply chain.

2.ii.Power and collaboration within the supply chain
There is a need to define where the power within the relationships in the supply chain is held and how this power alters with different types of supply chains; it is suggested the power balance will dictate which supply chain management techniques would be used within the supply chain (Cox 1999). Modern markets are too complicated for even the largest players to manipulate and convergence or divergence of firms is the result of series of complex events that cannot be controlled by a single entity (Pegels & Song, 2000).

An SME enters a supply chain from a point of weakness if the chain is already controlled by a larger firm or from a perceived point of weakness where it believes the larger firm could easily replace it within the chain. This gives the power to the larger firm within the supply chain unless the SME changes its perception of the chain or prove its uniqueness to the chain (Arend & Wisner, 2005). This is reflected in the fear that firms may surrender their core competencies to the supply chain (Parry, Graves & James-Moore, 2006). So the level of collaboration is complicated when partners are not of equal strength (Shams-ur Rahman, 2002).

2.iii. Collaboration between retailers and their suppliers

Kumar (1996) highlighted that retailers had become the market drivers as opposed to been market driven with power shifting away from suppliers to retailers in the 70’s and 80’s. To gain competitive advantage larger retailers absorbed their competition through merger and acquisition (Ghisi et al, 2008). As consumer demands become more complicated and more supply chains adopt SCM techniques flexibility will be the key word for business sustainability (Ritchie & Brindley, 2000).

It has been demonstrated by studying collaboration (defined as: information sharing; decision synchronisation and incentive alignment) within the retail supply chain that “chain members who had higher levels of collaboration were able to achieve better operational performance” (Simatupang & Sridharan, 2004). This definition of collaboration reflects the attributes of category management in retail which was originally introduced by suppliers to retailers. Category management has evolved from the process of delivering the desired goods to the consumer in the retail information led practice of Efficient Consumer Response (ECR) to doing this as cost effectively as possible through the logistical supply chain practice of Collaborative Planning Forecasting and Replenishment (CPFR) to handling the complexities of delivering a wide range of fresh products to demanding consumers with ‘category leadership’ (Dapiran & Hogarth-Scott 2003).

These SCM models require collaboration which would imply cooperation, however it was argued that retailers have moved cooperation over to dependence and because they control the information flow within the supply chain the balance of power has shifted towards the retailer (Dapiran & Hogarth-Scott 2003). With the increasing development of IT and global trade, Chinese researchers Yi-Ming Tai & Chin-Fu Ho (2010) suggest that increased information sharing has a positive effect for suppliers on the supply chain and may have a positive effect on customer relationship intention (CRI).

Different members within the chain have different perceptions of collaboration and “the best practices of collaboration have different degrees of importance perceived by
suppliers and retailers in attaining better operational performance” (Simatupang & Sridharan, 2004). The over use of reward or coercive power on suppliers can lead to their capitulation to control by retailers and eventually to their desire to exit whilst the use of referent or expert power can lead to cooperation between retailers and suppliers which would build on trust and encourage a continuing relationship (Dapiran & Hogarth-Scott, 2003 and Thron, Nagg & Wassan, 2006).

Ramesh, Banwet and Shankar (2010) have summarised the barriers to collaboration as a lack of internal abilities within the firms; a lack of external abilities within the supply chain itself and a lack of trust between actors that leads to an inability to share resources and information. They use Matrice d’Impacts Croises-Multiplication Applique a un Classement (MICMAC) to show how the variables within these barriers affect the levels of collaboration. Even when collaboration is achieved both retailers and suppliers need evidence of the benefits of collaboration, the performance measurement system (PMS) designed by Papakiriakopoulos & Pramatari (2010) demonstrates the complexities of gathering this information.

Martens & Dooley (2010) demonstrated that it is still possible for power to stop the level of collaboration moving from centralised coordinated control to cooperation between equal partners; large retailers such as Wal Mart have used their market knowledge and technology to develop systems such as Efficient Consumer Response (ECR) to create a collaborative supply chain that places the power of the chain with the controller of the market knowledge and the access to the mass consumer.

4. From cooperation to coordination within the UK convenience supply chain

Payan (2007) compared the business attitude of cooperation to the business behavior of coordination and concluded that cooperation was an “an orientation that reflects a spirit of willingness of one organization to work with another organization” whilst coordination was “general joint activities that take place between organizations”, this would imply that whilst all businesses recognized the benefit of the coordinative business activity of supply chain management not all business men that adopted SCM truly behaved cooperatively. Several academics have argued that this would imply that large and small retailers consider relationships within the supply chain from different perspectives (Hollingsworth, 2004, Fearne et al, 2005 and Owens & Quin, 2007). The ability of multinational retailers to coordinate their supply chain to gain competitive consumer pricing is reflected in the price war that continues between the UK supermarkets but their ability to cooperate in international joint retail ventures is not as successful. To compete in this global market place voluntary chains of smaller retailers expanded their membership, their chains level of cooperation was not affected as members usually dealt with a microcosm of that chain rather than with the entire chain. The ability for these alliances to work relies on their members having a perception of the existence of potential benefits; a common vision; cultural similarity; commitment to joint future actions and them been prepared to invest and modernise. The Co-operatives dealt with the competition through a series of mainly internal horizontal and vertical mergers.

Dapiran & Hogarth-Scott (2003) recognized that cooperation has to be initiated by a party in the supply chain and this party is usually the one with a degree of power within the supply chain so power as a construct still has a strong role to play. Boyaci
and Gallego (2004) highlighted the benefits of been the first to achieve supply chain collaboration and cooperation within the retail market but these improvements will be mimicked by competing supply chains and the initial advantage lost with subsequent efforts usually resulting in further cost reductions for the end consumer at the cost of cutting profits for wholesalers and retailers. As demonstrated in the Coops and voluntary chains these improvements may be maintained through cooperation and collaboration or through merger and acquisition. Dunne (2008) looked at the effect of collaboration within the food supply chain and concluded that internal alignment is an essential precursor for external engagement; mutually beneficial joint activities can build trust and commitment; building collaborative relationships are difficult and not all relationships need to be collaborative to be effective.

Conclusion

The UK grocery market has experienced large multiples purchasing chains of smaller retailers in order to enter the convenience market. To combat this, the Co operative societies have gone through a series of horizontal and vertical mergers whilst the voluntary chains have also seen their wholesalers go through mergers and acquisitions as well creating a large sector of ‘company owned stores’.

Most of the surviving unaffiliated stores have either joined voluntary groups or buying groups and the difference between these two groups’ services and attitudes to their retailers has become blurred so there is no clear standard of distribution of wealth or the ‘procedural justice’ within any of the UK convenience supply chain.

This paper highlights a gap in the extant literature relating to relationship choice. A supply chain that moves towards coordination as opposed to cooperation changes its emphasis onto the distribution of wealth and away from ‘procedural justice’. The retailer chooses a supplier relationship that reflects the type of chain they want to be part of and the causality of this choice is both internal and external.

This paper posits a number of research questions which will form the basis of ongoing research to gain insight into the lived experience of the convenience retailer and the current dynamics of their supply chain. These will help to answer the variations in supplier relations of independent retailers operating within voluntary groups. The questions to be addressed include:

- What motivates independent retailers?
- What does it mean to be part of a voluntary chain?
- What external factors influence the relationship between the retailer and their supplier within a voluntary chain?
- Does this relationship vary within chains and between different organisations?

It is anticipated that these research questions will form the focus of future papers arising from this research and build on the contribution made by this paper in determining these gaps in current knowledge and understanding.
References


