LONG TERM ORIENTATION IN THE RELATIONSHIP BETWEEN RETAIL CHAINS AND SMEs SUPPLYING PRIVATE LABELS: WHAT ROLE OF TRUST?

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ABSTRACT
The purpose of this paper is to highlight the role of trust in building successful and sustainable interactions between retail chains and small and medium enterprises (SMEs) supplying private labels. Specifically, on how trust through its aspects and antecedents, helps explain the long term orientation and commitment of retail chains to maintain such relationship over time. Based on a literature review combined with the results of an exploratory qualitative survey done with purchase managers of large retail chains in Morocco, a preliminary model is proposed focusing on the influence of the antecedents of trust with SMEs supplying private labels on the long-term orientation of the retail chains.

KEY WORDS:
Trust, Long term orientation, SMEs, Private labels, Relationship between retail chains and suppliers.

RESUME
L’ORIENTATION A LONG TERME DANS LA RELATION DISTRIBUTEURS – PME FOURNISSANT LES MDD : QUEL RÔLE DE LA CONFIANCE ?

L’objectif de cet article est de souligner le rôle de la confiance dans l’établissement des interactions réussies et durables entre les distributeurs et les PME fournissant les MDD. Plus précisément, il s’agit de comprendre comment la confiance, à travers ses dimensions et ses antécédents, contribue à l’explication de l’orientation à long terme et l’engagement des distributeurs à maintenir cette relation dans le temps. Sur la base d’une revue de littérature associée aux résultats d’une étude qualitative exploratoire menée auprès des responsables achat des grandes enseignes de distribution au Maroc, un modèle préliminaire est proposé mettant l’accent sur l’influence des antécédents de la confiance envers les PME fournissant les MDD sur l’orientation à long terme des distributeurs.

MOTS-CLES :
Confiance, Orientation à long terme, PME, MDD, Relation Distributeurs-Fournisseurs.
INTRODUCTION

As of late we have seen the birth and growth of supermarket’s private labels (PL) products, which now dominate the offerings of the retail chains operators in Morocco. These retail chains offer a broad portfolio of products either designed by themselves, or rely on the expertise of other companies (often SMEs) on the basis of a book of specifications. This observed surge in PLs promotes the development of partnerships and strengthens the relations of exchange between retail chains and SMEs providing private labels. The literature on the relationship between manufacturers and retailers has long considered that major retail outlets and their suppliers kept differing relations due to conflicting interests of both parties (Dwyer, Schurr and Oh, 1987). According to Messeghem (2003), this relationship has grown from logic of confrontation, especially between SMEs and retailers, into logic of cooperation due to the emergence and development of private labels.

In fact, For SMEs providing PLs, which usually suffer from high competition and the small size of their customer base, the emergence of this new trading architecture with large retail chains pushes them to maintain this cooperative relationship as long as possible in order to ensure sustainability and reduce marketing and logistics costs in this market (Chanut, 2005). This sustainable relationship cannot succeed without the establishment of partnerships based on trust between the different parties. In industrial marketing, several studies have investigated the role of trust in the development of partnership strategies between customers and suppliers (Ganesan, 1994, Geyskens, Steenkamp and Kumar, 1998, Andaleeb, 1992; Miyamoto, Nexhimi and Grainger, 2002; Jouali and Chakor, 2013; Souilem, 2015; Cho, Chung and Hwang, 2015). These various studies have shown that the main consequence of trust appears through the commitment to maintain these relationships over time.

It is with this perspective in mind that this article shall shed light on the influence of this trust in the long-term orientation of the relation between retail chains and SMEs providing private labels. This study proves interesting, both on the academic and the managerial levels, to the extent that the relationship of trust between retailers and SMEs under the framework of PLs has not been, to our knowledge, a subject to many publications and research papers. Moreover, and from a managerial point of view, the value of this research lies in the recognition by the SMEs supplying private labels, of the importance of the determinants of trust and its dimensions in order to build successful and sustainable relation of cooperation with their retail customers.
To achieve this, the first part shall focus on a review of literature dealing with trust, its dimensions, its determinants and the link to its main impact (i.e. long term orientation). The second part shall present the results of an exploratory qualitative study based on in-depth interviews. These interviews were conducted with managers of several brands of retail chains offering their own labels that are manufactured by SMEs. We then shall propose a conceptual model highlighting the role of trust in SMEs supplying private labels in the long-term orientation of the retail chains. Finally, we shall propose the managerial implications, limitations, and future avenues of research.

1. LITERATURE REVIEW

1.1. PRIVATE LABELS: A NEW GROUND OF COOPERATION BETWEEN SMES AND RETAIL CHAINS

The relationship between retail chains and SME has long been marked by strong tensions due to diverging interests of both parties. This mainly stems from the vulnerability of SMEs and their weak bargaining power, and also from the strong opportunism of supermarket chains (Boissinot Paché and 2007). However, it is clear that this classic pattern was disrupted with the spectacular emergence of private labels.

Indeed, retail chains, in their quest for differentiation and innovation are starting to develop their own brands in partnership with SMEs, who constitute, according to a study conducted by AC Nielsen, more than 80% of the manufacturers of private labels. These labels, commonly called PLBs, are defined as products manufactured by or on behalf of a retail chain and sold only in its stores under an exclusive label (Heilbrunn, 2010). It's about a broad portfolio of products either designed by retail chains themselves, or they rely on the expertise of other businesses (often SMEs) based on a book of specifications.

Several authors have stressed the role of these labels in the conversion of the nature of the relationship between retailer chains and some manufacturers, especially SMEs, from logic of confrontation to logic of cooperation (Jean, 1998; Messeghem, 2005; Pacitto and Menvielle, 2007; Abbad, 2007; Chanut, 2005; Machat, 2009) or coopetition (Mathews-Lefebvre, n.d; Geyskens, Gielens and Gijsbrechts, 2010).

As for SMEs, the reconfiguration of the relationship toward the development of PLs is rather beneficial and encourages them more to maintain this cooperation over time by counting on trust.
In light of this reflection, we deem interesting to refine the concept of trust, which covers several dimensions and determinants, within the supplier-retailer relationship before going over the various studies which shed light on its impact on the long term orientation of the retail chains.

1.2. **TRUST: DIMENSIONS AND ANTECEDENTS**

Understanding and evaluating the role of trust in the long-term orientation within the relationship between suppliers of PLs and retailers requires first to clarify the concept itself.

Generally speaking, the concept of trust has received much attention in the literature of Marketing. This literature identifies a dozen definitions in the context of inter-organizational relationships (Anderson and Narus, 1990; Sako, 1991; Andaleeb, 1992; Ring and Van de Ven, 1994; Ganesan, 1994; Morgan and Hunt, 1994; Bidault and Jarillo, 1995; Gulati, 1995; Doney and Cannon, 1997; Dyer and Chu, 2000). To carry on our reflection, we chose the definition of Anderson and Narus (1990) who consider trust as "A firm’s belief that another company will perform actions that will result in positive outcome for the firm, as well as not take unexpected actions that would result in negative outcomes for the firm." This definition is very relevant to our research because it focuses on the two-dimensional aspect of building [trust] as defined by Ganesan (1994). This author presents trust as a concept that encompasses two dimensions, on one hand, "credibility" which evokes the partner’s ability to carry out its part of the job in a reliable and efficient manner, and on the other hand, through benevolence which means the belief in the partner’s wiliness and intention the to carry out beneficial actions and not act opportunistically.

In the particular context of the supplier-retailer relationship, several studies have given trust a vital role in the success of this relationship (Dwyer, Schurr and Oh, 1987; Sako, 1991; Ganesan, 1994; Morgan and Hunt, 1994; Geyskens, Steenkamp and Kumar, 1998; Doney and Cannon, 1997; Abbad, 2007; Miyamoto, Nexhimi and Grainger, 2002; Matri Ben Jemaa and Tournois, 2009; Jouali and Chakor, 2013; Abbad and Bonet-Fernandez, 2014; Ozkan-Tektas, 2014; Bahha and Chanut, 2014; Souilem, 2015; Cho, Chung and Hwang, 2015). These studies suggest that trust increases the degree of commitment and, as a result, reduces opportunism between the two parties. Furthermore, it is a determining factor in the long-term orientation between retailers and suppliers (Ganesan, 1994; Doney and Cannon, 1997). For Miyamoto, Nexhimi and Grainger (2002), trust is at the heart of the retailer-supplier relationship and it is the precursor of a strong cooperation between the different actors of this relationship. More recently, Souilem (2015), through a survey about supermarkets chains and SMEs in the Moroccan context, showed that trust plays a strategic role in inter-organizational relationships.
in general and in the relationship with an SME in particular, especially because of the benefits it grants in terms of competitive advantage and the reduction of transaction costs. Bahha and Chanut (2014) emphasized the role of trust as a variable that may encourage mutual cooperative behavior and generate higher profits for retailers and suppliers of private labels.

In addition, several studies have pointed out that trust in the retailer-supplier relationship highlights several determinants including the reputation and size of supplier, satisfaction, communication, and past experiences.

Concerning the supplier's reputation, Herbig and Milewicz (1995) define it as a process, which is formed from aggregated judgments toward an actor for an extended period of time. For Ganesan (1994), reputation is strongly influenced by the retailer’s perception of the supplier’s credibility. On the same page, Doney and Cannon (1997) consider that reputation is one of the key determinants of trust that strengthens the links between partners. The work of Matri Ben Jemaa and Tournois (2009) on the determinants of trust in the B-to-B relationship shows that the reputation and size of the supplier positively influence the trust of the retailer. The same authors also point out that the bigger the size of the company is, the more the customer deems it deserving of its trust. The size of the supplier is not only confined to its physical size but can be defined through many fundamental indicators such as annual sales, market share, number of employees, production capacity and its investments. For Doney and Cannon (1997), supplier size is considered as an antecedent of trust.

In addition to the characteristics of the supplier (size and reputation), other variables may be presented as determinants of trust. In previous works, satisfaction has been suggested as an antecedent of trust (Ganesan, 1994; Jap and Ganesan, 2000; Sanzo et al. 2007; Abbad, 2007; Abbad, Pache and Bonet-Fernandez, 2010; Jouali and Chakor, 2013; Cho, Chung and Hwang, 2015). All these studies showed that the satisfaction of the company with the supplier is positively related to the level of trust in the latter. Indeed, the satisfaction of the retailer vis-à-vis the skills and prices it gets from its supplier increases its confidence and commitment to the relationship (Ganesan, 1994). Generally, satisfaction refers to the positive emotional state resulting from an assessment of all the elements of a business relationship with another party (Anderson and Narus, 1984). According to Geyskens, Steenkamp and Kumar (1999), this satisfaction can take two forms: economic satisfaction and social satisfaction. Cho Chang and Hwang (2015) showed that both forms of satisfaction influence positively and simultaneously the two dimensions of trust: credibility and benevolence. For Abbad (2007), satisfaction in
terms of financial returns and skills appears decisive in the trust and willingness of both parties to sustain business relations.

Regarding communication between the supplier and the retailer, it is equated as the formal and informal sharing of meaningful and timely information between two parties (Anderson and Narus, 1990). Several studies have shown this variable as an important determinant of trust between trading partners (Anderson and Weitz, 1989; Morgan and Hunt, 1994; Geyskens, Steenkamp and Kumar, 1998; Doney and Cannon, 1997; Dyer and Chu, 2000; Wu and al. 2004; Semeijn, Cao and Ghijsen, 2005; Gainey and Klaas, 2005; Kwon and Suh, 2005), these studies believe that communication plays an important role in the strengthening and the continuity of business exchanges and it also limits dysfunctional conflicts, which in turn, leads to higher level of trust. In the same light, Doney and Cannon (1997) consider that the exchange of confidential information strengthens trust among partners. Relationship marketing literature identifies three conditions for successful inter-organizational communication: the quality of communication, the involvement of stakeholders in the planning and definition of objectives and finally, the sharing of information (Mohr and Spekman, 1994). In general, the sharing of timely quality information is vital to build trust between buyer and seller (Semeijn Cao and Ghijsen, 2005).

Finally, past experience between retailers and the suppliers was also identified, in previous work, as a determinant of trust. Ganesan (1994) emphasized the positive impact of past experiences on trust and long-term orientation. Abbad (2007), in the Moroccan context, showed that the past shared experience between retail chains and SMEs influences trust and the long-term orientation but at different degrees.

1.3. THE RELATION BETWEEN TRUST AND THE LONG-TERM ORIENTATION

The long-term orientation is the desire of parties to develop and maintain a long-term relationship (Ganesan, 1994). Long-term orientation is not only limited to the duration of the relationship but also to the willingness to cooperate over a long period of time (Abbad, 2008). Generally, Ganesan (1994) shows that long-term relationships between buyers and sellers are based on trust between the two parties of the business exchange. Ingham and Mothe (2003) add that without trust, no relationship can be stable and durable. Indeed, trust is a fundamental determinant of commitment vis-à-vis the exchange partner over the long term (Garbarino and Johnson, 1999; Morgan and Hunt, 1994).

This link between trust and long term orientation has been the subject of several studies which all agreed on the importance of trust in the commitment of exchange partners to maintain
that relationship over time (notably Ganesan, 1994; Geyskens, Steenkamp and Kumar, 1998; Andaleeb 1992; Garbarino and Johnson, 1999; Morgan and Hunt, 1994; Andersen and Kumar, 2006; Wang-Siu and Barnes, 2008; Jouali and Chakor, 2013; Cho, Chung and Hwang, 2015). According to Morgan and Hunt (1994), a partner that has confidence in its suppliers demonstrates a greater commitment and willingness to maintain the relationship. Similarly, Jouali and Chakor (2013) point out that trust is of considerable importance in building a long-term relationship between suppliers and retailers. The results of the work of Cho, Chung and Hwang (2015) confirm that trust through its two dimensions (credibility and benevolence) positively influences long-term orientation. Based on these elements, we can assume that the trust and its determinants will influence the long-term orientation in the relationship between retailers and SMEs supplying private labels.

This literature review has enabled us to gather the main conceptual tools to understand the role of trust in the long-term orientation of the retail chains toward SMEs supplying private labels. In what follows, we shall present the methodological protocol used as part of this study to better understand the link between the concepts of this research.

2. METHODOLOGY

The aim of this paper is, of course, to study the importance of the different dimensions of trust and its antecedents in building successful and sustainable relationships between SMEs supplying private labels and their customers, the retail chains. It is with this purpose that we chose to conduct an exploratory qualitative study through semi-structured individual interviews with purchase managers of supermarket chains in Morocco: Atacadão, Carrefour, Marjane and Aswak Assalam. Each interview lasted between 20 to 30 minutes.

These individual interviews were conducted using a structured interview divided into three main sections. The first introductory phase included broad questions about the management of private label portfolio by retail chains and information about their suppliers. Managers were interviewed in a second refocus phase on issues related to the selection criteria for suppliers of private label and their satisfaction with the relationship. The final section of the interview guide, the in-depth phase, relied on a series of questions about trust in SMEs supplying private label and on the long-term orientation of their retail chains. After a full transcription the interviews, we conducted a thematic analysis based on the vertical and horizontal comparison between the interviews.
3. RESULTS AND DISCUSSION

The results of the exploratory study show trust as a variable that sustains the cooperative relationship between retailers and SMEs manufacturing private labels. Verbal material collected during the interviews with purchase managers of the retail chains confirms the links between the findings identified during the course of the literature review.

Trust arose in the discourses of all managers as an important variable in the context of the relationship with suppliers in general, and manufacturers of private labels in particular. According to some managers, this trust is built according to the idea that the supplier is competent and has a know-how enabling it to meet the required book of specifications and fulfill its commitments to the retailer chain. Other managers consider that given the nature of the relationship of business exchange in the context of private label, trust is based primarily on the contractual and regulatory aspects so as to minimize the risk of failure and to give more guarantees to different parts of exchange. "For our private labels, drafting contracts and imposing a book of specifications is important to secure our exchange, and to ensure and verify that our supplier will exactly meet our demands in terms of quality, volume and deadline" (Manager N°3). "There is no absolute trust in the commercial jargon, we establish budgets, automate the monitoring and controls over the year" (Manager N°1). That being said, we can argue that contractual trust appears to be the factor that can build a lasting relationship between retailers and SMEs supplying private label, given the inequalities in power between the two parties and divergent issues related to the manufacture of private labels.

This relationship of trust, essentially ruled by commercial contracts and books of specifications that unite retail chains and manufacturers of private label, also comes from the satisfaction of retail chains with regard to past and present interactions with these companies. "The success of past experiences pushes us to seek this type of partnership" (Manager N°1). This satisfaction is closely related, according to these retailers, to prices, profit margins which remain very good, quality of products that often correspond to the book of specifications and timely delivery. The satisfaction expressed by retailers also follows the particularities of SMEs, their responsiveness and ability to compromise during the negotiations about the book specifications, and their ambition to maintain that relationship over time.

Generally, the choice to trust suppliers in the context of private labels is made after an initial call for bids by the retail chain with the goal to design competitive products with very high profit margins, jointly develop a brand image that will create an identity for the retail chain and reduce the its dependency on big manufacturers. "Strategically, it is important to offer a private
label by need units to create competition and avoid dependencies" (Manager N°5). At the end of this call for bids, a book of specifications is drawn up in collaboration with manufacturers whose profile matches the expectations of the brand in terms of production capacity, delivery, warranty and minimum stock.

Through the analysis of the comments, retail chains explain that private labels manufactured by local or international SMEs are important in their product portfolio and for their activity. The choice to cooperate with medium-sized enterprises within the framework of private labels comes very often from their confidence in the competence and ability of these companies in meeting their expectations in terms of price, quality and their ability to accompany their brand in its quest for originality and differentiation. "They are generally new to the market, but have large capacities and a big desire to develop their business" (Manager N°4). Trust in these midsized companies comes, according to retail chains, from their flexibility, their market reputation and their supple structure that adapts well to the specificities of production of private labels.

However, some managers prefer to leave the manufacture of private labels to large industrial because of their high production capacity, which allows them to cope with the fierce competition of large labels and also for their quality policy. "(...) Few SMEs, given their production size and the size of orders placed by Atacadão" (Manager N°1). "(...) The local suppliers of our Private Labels are mostly large companies manufacturing brands such as ‘Twimen’, we prefer to work with large companies because we are not very sure that small businesses will meet our books of specifications, they have neither the staff nor the means to do it ... " (Manager N°3). The size of SMEs, despite some advantages, is a factor that can negatively influence the trust of retail chains in this type of companies and towards their ability to meet their requirements. It is thus a brake on the choice of building long-term partnerships in the manufacture private labels.

The retail chains have presented another antecedent of trust as part of the study. It is communication and transparency in sharing information with suppliers. Retail chains affirm that, when developing private labels, communication is key for the success of the relationship as it allows maintaining durable and strong interactions based on trust. This sharing is often done as part of the meetings that are held regularly with the representatives of companies in order to develop and improve the offerings and to plan and jointly define books of specifications which are, according to some managers, the best communication medium between retail chains and manufacturers.
The importance of these books of specifications resides in the fact that they provide a framework that allows suppliers of private label products, a better understanding of the goals and needs of retailers and a formalization of the business conditions and obligations of each party. "When we say book of specifications, we mean all the details, from production to distribution and even the selling to the final consumer", explains a purchase manager of a supermarket chain. Specifications books are thus a management tool that limits the hazards of information asymmetry, promotes dialog between different players and creates a climate of trust based on an exchange of information that ensures the compliance of private labels to the requirements of retail chains who, as long being satisfied with the quality of interactions, will certainly engage in a lasting relationship.

**FIGURE N°1 : Preliminary model of the role of trust in SMEs supplying private labels on the long-term orientation of the retail chains**

![Preliminary model of the role of trust in SMEs supplying private labels on the long-term orientation of the retail chains](image)

Source : Own research

**CONCLUSION**

This paper highlights the role of trust between retail chains and SMEs supplying private labels in the long-term orientation of these retailers, and their aspiration to sustain that relationship over time. A review of the rich literature on trust in inter-organizational relations in general and the relationship between retailers and suppliers in particular, has allowed us to identify a number of variables that might influence this trust and encourage the two sides of the exchange to develop lasting relationships in order to benefit most from the advantages associated with it. This literature review combined with the results of an exploratory qualitative study allowed us to better understand the links between the different findings and draw up a preliminary model highlighting the relationship between trust, its antecedents and the long term orientation of retail chains.
Following this research, two lessons for SMEs should be highlighted. First, the need to understand the importance of the trust regulated by commercial contracts and books of specifications in the development of lasting relationships particularly in the context of the manufacture of private labels. In addition, to earn the trust of retail chains and push them to commit to the relationship, SMEs must absolutely showcase, during the negotiations, their expertise, responsiveness and flexibility. All these specificities enable SMEs, despite their small size, to win call for bids launched by retail chains. In addition to these characteristics, SMEs must also not forget other variables that can foster trust and sustain the relationship including satisfaction with past and current experiences and communication between different parts of the exchange.

However, this study has many limitations that arise directly from the small sample size and duration of the interviews. Nonetheless, the results of this first exploratory work can be used for the construction of the questionnaire necessary to achieve a confirmatory quantitative study on a more representative sample. Among other things, other research avenues may be considered such as conducting interviews with the representatives of SMEs supplying private labels to better understand the characteristics of this dyad.
REFERENCES


