FUNDAÇÃO GETULIO VARGAS

ESCOLA DE ADMINISTRAÇÃO DE EMPRESAS DE SÃO PAULO

CREATING BUYER-SUPPLIER COMMITMENT IN FOOD SUPPLY CHAINS AT THE BASE OF THE PYRAMID

CAMILLE ALIENOR REBECCA CHOUAN

SÃO PAULO

2013

CAMILLE ALIENOR REBECCA CHOUAN

CREATING BUYER-SUPPLIER COMMITMENT IN FOOD SUPPLY CHAINS AT THE BASE OF THE PYRAMID

Dissertação apresentada à Escola de Administração de Empresas de São Paulo da Fundação Getúlio Vargas, como requisito para obtenção do título de Mestre Profissional em Gestão Internacional.

Campo do Conhecimento: Estratégia

Orientador Prof. Dr. Edgard Elie Roger Barki

SÃO PAULO

2013

Chouan, Camille Aliénor Rebecca.

Creating Buyer-Supplier Commitment in Food Supply Chains at the Base of the Pyramid / Camille Aliénor Rebecca Chouan. – 2013.

206 f.

Orientador: Edgard Elie Roger Barki.

Dissertação (MPGI) - Escola de Administração de Empresas de São Paulo.

1. Agricultura familiar. 2. Empresas multinacionais. 3. Marketing de relacionamento. 4. Logística empresarial. 5. Clientes e fornecedores - Relacionamento I. Barki, Edgard Elie Roger. II. Dissertação (MPGI) - Escola de Administração de Empresas de São Paulo. III. Título.

CDU 658.89

CAMILLE ALIENOR REBECCA CHOUAN

CREATING BUYER-SUPPLIER COMMITMENT IN FOOD SUPPLY CHAINS AT THE BASE OF THE PYRAMID

Dissertação apresentada à Escola de Administração de Empresas de São Paulo da Fundação Getúlio Vargas, como requisito para obtenção do título de Mestre Profissional em Gestão Internacional.

Campo do Conhecimento: Estratégia

Data de Aprovação:

____/____/_____

Banca Examinadora:

____

Prof. Dr. Edgard Elie Roger Barki, FGV-EAESP

____

Prof. Dr. Mario Aquino Alves, FGV

____

Prof. Dr. Roberto Fava Scare, FEA-RP

Abstract

This research analyzes the role of relational aspects such as trust, commitment, power usage and interdependence in the framework of inclusive business strategies that engage agribusiness MNCs and smallholder farmers in food supply chains in Brazil. Inclusive business strategies that seek direct sourcing from smallholders in emerging countries have been acknowledged as a promising market-based approach to create social impact and improve the livelihoods of rural producers at the “base of the pyramid”, all the while enabling companies to strengthen their position in local markets and source quality raw materials at lower costs. Studies on this topic widely focus on the competitive and commercial advantages that food companies derive from directly sourcing from smallholder suppliers, presenting value chain models that can be tailored to fit their global business strategy, however there remains little theoretically-grounded knowledge on the inter-organizational and relational challenges of these buyer-supplier relationships. Moreover, little attention has been paid to how asymmetries between MNCs and smallholder suppliers in terms of power, dependence and value-orientation can affect the evolution of these relationships. The objective of the study was thus to describe the factors that enable these asymmetrical partners to build long-term and mutually beneficial business relationships. A grounded theory methodology was used, which was particularly appropriate to examine relationships and collect experiences from the field through interviews of both company executives and field staff and smallholders in three key sectors dominated by family agriculture in Brazil, namely dairy, poultry/swine husbandry and horticultural production. Key theoretical concepts from the field of Relationship Marketing were used to back the results from the field research. The main finding of this research is the importance of going beyond trust-building in the relationship management strategy and designing dyadic partnerships based on mutual interdependence in order to reduce asymmetries and enhance commitment between the MNC and the smallholder.

Key words: Inclusive Business, Multinational Companies, Smallholder Agriculture, Trust, Commitment, Power, Interdependence, Supply Chain Management, Relationship Marketing.

Resumo

Esta pesquisa analisa o papel dos aspectos relacionais tais como confiança, comprometimento, interdependência e uso de poder âmbito das estratégias de negócios inclusivos que envolvem pequenos agricultores nas cadeias de valor de multinacionais dos agronegócios no Brasil. Os negócios inclusivos de abastecimento direto por empresas com pequenos agricultores em países em desenvolvimento têm sido reconhecidos como uma abordagem economicamente viavél e promissora para criar impacto social e melhorar as condições de vida de produtores rurais da "base da pirâmide", ao mesmo tempo permitindo que as empresas reforçar as suas posições nos mercados locais e adquirir matérias primas de qualidade a custos mais baixos. Estudos sobre este tema focam amplamente sobre as vantagens comerciais e competitivas que as empresas derivam do abastecimento direito com pequenos fornecedores, apresentando modelos de cadeia de valor customizados e ajustados estratégias globais de negócios, no entanto ainda há pouco conhecimento teoricamente fundamentado sobre os desafios organizacionais e relacionais da relação entre o comprador multinacional e o fornecedor de baixa renda. Além disso, pouco foco tem-se prestado sobre como assimetrias entre multinacionais e produtores de baixa renda, em questão de poder, dependência e de valores pode afetar a evolução dessas relações de negócios. O objetivo do estudo foi descrever os fatores que permitem a esses parceiros assimétricos de construir relacionamentos comerciais de longo prazo e mutuamente benéficos. A metodologia da teoria fundamentada foi usada e foi particularmente adequada para examinar as relações entre comprador e fornecedor e para recolher experiências de campo em três setores principais dominados pela agricultura familiar no Brasil, ou seja laticínios, avi-suinocultura e produção hortícola. Os principais conceitos teóricos da área de Relationship Marketing foram usados para apoiar os resultados da pesquisa de campo. A principal conclusão desta pesquisa é a importância de ir além da construção de confiança na estratégia de gestão do relacionamento entre comprador e fornecedor e de criar parcerias diádicas baseadas na interdependência mútua, a fim de reduzir as assimetrias e melhorar o comprometimento entre a empresa e o pequeno agricultor.

Palavras Chaves: Negocios Inclusivos, Empresas Multinacionais, Agricultura Familiar, Confiança, Comprometimento, Poder, Interpendência, Supply Chain Management, Relationship Marketing.

To my wonderful and loving parents, Alain and Michèle Chouan, for all their support, patience and guidance in helping me become the person I am today. My studies have brought me far, but my education would not be a fraction of what it is without them.

ACKNOWLEDGEMENTS

I would like to thank first and foremost Pr. Edgard Barki for our guiding conversations, for his time and patience, for all the opportunities he gave me to deepen my knowledge throughout this year and most importantly for empowering me to trust my instinct and take this research to heights I never could have ambitioned.

I would also like to thank all those who have participated in this research: the executives and field staff from the interviewed companies and cooperatives, in particular Monica, Mario, Camila, Tiago, Barbara, João, Guilherme, Luciana, Gilberto, Evaldo and Valmor, thank you for your valuable time and answers; thank you as well to Joaquim and the Prefecture of Tupandí and to Cristiano, Tiago, Marcos and Andrea from the PDPL of the Universidade Federal Viçosa for their warm welcome and for accompanying me on field trips; A special thank you as well to the 18 producers who opened their homes and lives and answered my questions in an unbiased and truthful way; Finally, thank you to the external informants who brought sharp and insightful information to this research from their background and respective expertise: Christina Gradl, Luciana Aguiar, Tiago Camargo and Marcos, your critical analysis and remarks were very valuable from the beginning of this research until its finalization.

I would also like to extend my warm appreciation to the professors and researchers who took the time and efforts to give me their views on my subject of inquiry, helped me sharpen my methodology, provided conceptual guidance and shared their knowledge with me in many enriching ways: Zilma Borges, Kate Dayana, Antonio Manfredini, Fabio Chaddad, Lauro Gonzalez, Rodrigo Bandeira de Mello, Gilberto Sarfati, Rai Sudhanshu, Daniel Friel, thank you for your insights and your attentive diligence.

Finally, I want to thank my family, in particular my parents Alain and Michèle and my brother Alexis, for their support and kind encouragements; and my close friends from the dual degree, Lea, Marianne, Pilou and Amal and my beloved companion and best friend in life, Freddy, for their constant listening and advice. Thank you for always showing interest, for listening to my stories every time I came back from field trips, for pushing me further in my train of thought as well as for celebrating my successes with me and for telling me when to take a break. I could not have asked for better coaches.

TABLE OF CONTENTS

LIST OF FIGURES

Figure 7-13: The Interrelation between Trust and Interdependence in Reaching Commitment

LIST OF TABLES

LIST OF ABBREVIATIONS

3S: Sadia Sustainable Swine

B-S: Buyer-Supplier

BoP: Base of the Pyramid

BCS: Bayer CropScience

CDM: Clean Development Mechanism

CEAGESP: Company of General Warehousing of São Paulo (*Companhia de Entrepostos e Armazéns Gerais de São Paulo*)

CEPLAC: Executive Commission for the Planning of Cacao Farming (*Comissão Executiva do Plano da Lavoura Cacaueira)*

CSR: Corporate Social Responsibility

DFID: Department for International Development

DPA: Dairy Partners America

FAO: Food and Agriculture Organization

FGV: Fundação Getulio Vargas

GAIN: Global Alliance for Improved Nutrition

GDP: Gross Domestic Product

GMO: Genetically Modified Organism

GT: Grounded Theory

HVF: High Value Foods

IB: Inclusive Business

IBGE: Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*)

IDB: Interamerican Development Bank

IFAD: International Fund for Agricultural Development

IFC: International Finance Corporation

IPC-IG: International Policy Center for Inclusive Growth

KMV: Key Mediating Model

MG: Minas Gerais

MNC: Multinational Company

MST: Landless Movement (*Movimento Sem Terra*)

OCB: Organizational Citizenship Behaviors

OJ: Organizational Justice

OM: Operations Management

PAA: Food Acquisition Program (*Programa de Aquisição de Alimentos*)

PDPL: Program for the Development of Dairy Livestock (*Programa de Desenvolvimento da Pecuaria Leiteira*)

PNAE: National School Feeding Program (Programa Nacional de Alimentação Escolar)

PNPB: National Biofuel Production Program (*Programa Nacional de Produção e uso de Biodiesel*)

NGO: Non-governmentl Organization

RM: Relationship Marketing

RS: Rio Grande do Sul

SB: Social Business

SCM: Supply Chain Management

SCS: Social Fuel Seal (*Selo Combustível Social*)

SP: São Paulo

UN: United Nations

WBCSD: World Business Council for Sustainable Development

WEF: World Economic Forum

1. INTRODUCTION

1.1.Introduction

In 2002, Prahalad and Hart coined the expression “bottom of the pyramid” (BoP), referring to the four billion low-income consumer base, mainly living in emerging countries that multinational companies were ignoring in their marketing strategies by only targeting high-income consumer segments. The idea behind the BoP concept is that companies can contribute to the improvement of livelihoods and the alleviation of poverty by making their products accessible to the poor and engaging with low-income populations in a profitable rather than charitable way, for example as consumers, suppliers or distributors in their value chain. Since then, the BoP concept has considerably developed and penetrated business and management studies, driving discussions among both business practitioners and researchers on how multinational companies can effectively reach low-income populations in a commercially viable manner.

Similarly, the “inclusive business” paradigm appeared in recent years in the discourse of international organizations upon the leadership of the World Business Council on Sustainable Development (WBCSD), and has gained significant momentum in the international development community and among business practitioners by recognizing that companies can create positive social impact for low-income populations in their value chain through their core business activity while maintaining a profit-maximizing focus. The inclusive business model has particular relevance for agribusiness multinational companies (MNCs) looking to strengthen their supply chains for agricultural raw material with smallholder suppliers in developing and emerging countries like Brazil, one of the world’s largest net exporters of food and agricultural products but where still 80% of landholdings belong to family agriculture. Many multinational food firms have historically rooted operations in Brazil and have contributed to driving the agribusiness boom that has led the country to become one of the current breadbaskets of the world (Chaddad & Jank, 2006). However, many food production sectors remain driven by family agriculture, making it indispensable for these companies to include resource-poor producers in their supply chains if they want to secure increasing market shares and volumes (IBGE, 2006; Chaddad & Jank, 2006).

1.2. Problem Statement

Sourcing agricultural products from smallholder suppliers implies that MNCs rethink a certain number of basic business paradigms and strategies in order to adapt to the challenges and specificities of doing business with a resource-poor business partner. The integration of smallholder suppliers in food supply chains by leading agribusiness companies is not only a strategic decision to gain competitive advantage and secure a long-term position in developing markets, it is also an imperative to meet growing worldwide food demand and play a role in the development of markets for high value food (HVF) products.

Many studies and publications (Gradl, Ströh de Martínez, Kükenshöner & Schmidt, 2012; Vermeulen & Cotula, 2010; Vorley, Lundy & MacGregor, 2008; Van Djik & Trienekens, 2012; SNV & WBCSD, 2010; WBCSD, 2005; WEF, 2009, 2013) on these inclusive business strategies widely focus on designing commercially viable business models for the inclusion of smallholders in MNC food supply chains in developing countries, presenting models that can be tailored through a systematic approach to fit within their global strategies, however there remains little theoretically-grounded knowledge on the relational aspects and on the inter-organizational challenges linked to these B-S relationships. Nevertheless, the behavior of individuals with different "business cultures" and value-orientations can affect the evolution of these relationships. In fact, while the topic of building more smallholder-inclusive supply chains has taken considerable momentum internationally, the conceptual and CSR-driven language associated with inclusive business brings little practical knowledge of context-specific realities and poorly reflects the operational and cultural challenges of managing these new kinds of B-S relationships.

As underlined by Hornibrook, Fearne and Lazzarin (2009, p. 791), more attention must be paid to the "softer" aspects of supply chain relationships, namely on how the behavior and perceptions of individuals affect the evolution of business relationships. There is still little focus today on these softer dimensions of inclusive business models, such as the role played by concepts pertaining to the fields of Relationship Marketing (RM) and Organizational Justice (OJ) in the B-S relation. This research aims to address this gap, by describing and theorizing on the role of key characteristics such as trust, commitment, power usage and perception of fairness in the B-S relationship in inclusive business initiatives targeting the inclusion of smallholder suppliers in agribusiness supply chains in developing countries such as Brazil.

Taking a closer look at this issue is relevant in so far as building and nurturing collaborative B-S relations based on trust and commitment have been proven to increase competitive advantage and supply chain sustainability (Morgan & Hunt, 1994; Fearne, Yawson, Buxton & Tait, 2012). However, establishing close-knit B-S relationships does not automatically safeguard the relationship from adversity (Cox, Lonsdale, Watson & Qiao, 2003), especially in asymmetrical B-S relationships where dependence and power struggles naturally tend to occur between partners with different resource endowments. In other words, just because a supply chain is re-thought to become "inclusive" and generate positive social impact for a low-income population does not mean that the B-S relationship in itself is optimally managed, successful or free of conflict. Indeed, there remain many questions on how to achieve collaboration and synergies across organizational boundaries in a business partnership where the partners hold different objectives, business cultures, value-orientations and power resources as in the case of MNCs working with resource-poor, smallholder producers. Hence, this research assesses how subtler dimensions of the commercial relationship such as interpersonal behaviors, use of power, trust, commitment and perception of fairness of the interacting individuals, namely the smallholder and the company's manager(s), are particularly relevant components to take into consideration when building inclusive business strategies to source from smallholder producers, as they can affect the sustainability of the supply network as a whole.

The objective of the study is to describe the factors that enable these asymmetrical partners, namely multinational agribusinesses and resource-poor smallholder producers, to build long-term and mutually beneficial business relationships. In order to accomplish this research objective and to bring qualitative knowledge from the field on the realities of these B-S relationships and on how MNCs and smallholders perceived the challenges and benefits of their business exchange, a Grounded Theory (GT) methodology was adopted. GT is particularly pertinent for a subject that still has little theoretical groundwork as is this one, and it allowed us to draw an in-depth analysis of the relational and socio-psychological components of the asymmetrical B-S relationship. Moreover, conceptual contributions were drawn from the literature on RM and OJ to define and understand some of the key components of the relationship that were under observation such as trust, commitment, power dynamics and perception of fairness in marketing channels.

In the case of this study, three smallholder-driven agricultural sectors were chosen for a more in-depth analysis, namely dairy, poultry/swine husbandry and horticultural production. While this research only looked at Brazil, many lessons can be drawn from the Brazilian case and applied to other developing countries in the framework of designing food value chains where similar relational challenges in the buyer-supplier (B-S) relationship can arise between, on the one hand, large multinational agribusinesses and, on the other hand, low-income and resource-poor smallholder producers. These challenges are inherently linked to differences in terms of value orientation, organizational and individual "business cultures' and standards regarding the way in which the partnership should function.

The originality of this research is thus to bring more practical knowledge from the field on the context-specific realities and the inter-organizational challenges linked to these new types of B-S relationships in emerging countries which still remain quite experimental and lack a theoretically-grounded framework. It is also useful in the sense that, unlike most present studies that focus on developing and highlighting business model strategies for profitable agribusiness-smallholder engagement, this research takes into account the notion of power asymmetries which are inevitable between business partners of such different resource endowments, and focuses on subtler, relational and socio-psychological components such as trust and commitment to assess how successful B-S relationships can be built over the long term.

1.3.Structure

This thesis is divided in eight chapters, the first one being this current introductory chapter.

Chapter two starts by providing the necessary definitions and contextual precisions to understand the issues mentioned in this study, namely inclusive business and smallholder agriculture. Current topics related to the global discussion on inclusive business models targeting smallholder agriculture and the debate on how to define a smallholder farmer are presented.

Chapter three provides an overview of the existing literature and conceptual frameworks that guided the research inquiry and supported its main findings. We discuss theoretical contributions from the fields of RM, namely the two pillars of trust and commitment, the use of power and partner dependence in a supply chain, and OJ, namely the impact of perception of fairness in an asymmetrical business exchange. While GT makes little use of theoretical frameworks and prefers to generate new theories from data, these theoretical explanations were essential to define the concepts of trust, commitment, power usage, partner dependence and perception of fairness which were all central throughout this research.

Chapter four explains the qualitative GT methodology used in this research. The chapter starts by presenting a broad overview of what GT methodology is and how it came to be an increasingly relevant methodological approach in business studies. The specific steps taken throughout the data collection and analytical processes are also detailed.

Chapter five develops on the specificities of the Brazilian case: it begins with an overview of Brazil's booming agribusiness sector and its contribution to the country's growth as an emerging economy and as a net food exporter. The second section of the chapter discusses Brazil's large family agriculture class and its lack of integration within this increasingly structured and powerful agribusiness industry.

Chapter six presents the six salient categories that resulted from the data and constitute the dominant themes that arose throughout the field research to account as crucial explanatory factors of B-S relationships between MNCs and smallholder producers. These six categories were: income, compliance, interpersonal relationships, power dynamics, inter-organizational differences and partnership orientation.

Chapter seven presents the substantive theory that resulted from the research for successful B-S relationships in inclusive business initiatives targeting smallholder agriculture. In this chapter, I make the argument that the combination of trust and partner interdependence allow for the MNC and smallholder to reach commitment in their business relationship.

Finally, chapter eight makes final concluding remarks, discusses the implications of the research, its limitations and makes suggestions for further research.

2. CONTEXTUAL ELEMENTS AND DEFINITIONS

2.1. Defining Inclusive Business Targeting Smallholder Agriculture

2.1.1. Inclusive Business

Inclusive Business models have been recognized, simultaneously in the business world and among the international development community, as a promising, market-based approach to improve the living conditions of low-income populations in developing countries. The expression “Inclusive Business” (IB) was first coined by the WBCSD in 2005 as the act of “doing business with the poor in ways that simultaneously benefit low-income communities and also benefit the company engaged in this initiative” (p. 14).

In this research, we distinguish IB from Social Business (SB), a concept which appeared much earlier in the 1970s and 1980s with the work of the 2006 Nobel Peace Prize winner Muhammad Yunus in reaction to the flaws of both capitalism and philanthropy. Yunus (2007) defines a SB as a non-loss, non-dividend company created to solve a social problem. Like an NGO, it serves a social objective, but like a business, it generates its own revenues to cover its costs. In Yunus’ definition of a SB, investors can recover their investment but any surplus profit generated by the SB must be reinvested into the business. Furthermore, Yunus’ stance is that a SB cannot operate according to a profit maximization goal which would conflict with the social objectives of the business. The difference between IB and SB is not clearly defined in the literature and many authors use terms such as “social business”, “social enterprise” and “inclusive business” interchangeably, illustrating the lack of definitions and conceptual frameworks clearly distinguishing between these notions (Comini, Barki & Aguiar, 2012). Nevertheless, a comparison of the respective official definitions of IB and SB and a more in-depth examination of the existing work on these topics allows us to draw some important conceptual differences.

The distinction between IB and SB is essentially grounded in their respective business models and profitability. While a SB is a business specifically designed to address a social or environmental objective, an IB can be an already existing commercial enterprise that seeks to create positive social benefits by working with a low-income population in its value chain, without changing its fundamental profit-making nature. Moreover, while SB generally focuses on developing innovative products and services for the poor, IB engages with the poor through specific value chain design and adaptations. As stated by Golja and Pozega (2012), “underpinned by a philosophy of creating mutual value, inclusive businesses contribute to improving the quality of life of low income communities by integrating them in the business value chain”. These IBs can work with the poor as suppliers, distributors, employees or consumers.

	Social Business	Inclusive Business	Commercial Business
Business Criteria			
Financial Viability	Commercially viable	Profitable	Profitable or highly profitable
Rate of Return (% p.a.)	0-10	10-25	10-50
Turnover (M USD p.a.)	< 1.0	0.5-30	> 10
Investment (M USD p.a.)	0.05-0.1	0.1-10	1-500
Growth Potential (average % p.a. over 5 years)	0.1-0.9	1-15	>3
Social Criteria			
Main purpose of the business is social impact	Yes	Mixed (Business + Social)	No
Social Impact Area	Local	Sector/Country/Systemic	
Bottom Line	Triple	Double or Triple	Single
Benefitting Households (nb of households, total over 5 years)	Less than 5.000	5.000-50.000	Anything
- Of which poor (under the $2/day poverty line, %)	10%	30%	10%
- Of which vulnerable (under the $3/day poverty line, %)	70%	50%	15%

Table 2-1: Characteristics of Inclusive Business Compared to Social Business and Commercial Business

Source: Adapted from ADB (2012, p.2)

While IB and SB are similar in their nature of bringing social impact into the realm of economically viable enterprises, they remain different in terms of profitability, motives, shareholder value redistribution, investment sizes and scale of impact. In IB, profit making is an integral part of the firm’s motives, whereas in SB, covering costs is what’s important (no losses) and if profits are generated, they merely support the social objective of the enterprise. Indeed, one of the fundamental principles of SB is the non distribution of dividends to investors (Yunus, 2007). Investors may be reimbursed of their investment amount but do not receive any surplus. This is not the case for IB models. The Asian Development Bank's (ADB) conceptual framework on IB for the Manila Forum (2012) underlines the difference between social businesses, inclusive businesses and mainstream commercial businesses, showing that in business terms, IB is more profitable, has a higher rate of return and a higher growth potential than SB. In a SB, the success of the business is measured by its social or environmental impact, not by the amount of profit it makes, while IB models take both financial and social criteria into account to evaluate their success. Moreover, because of their low profit-orientation, SB models are generally more limited in scale than IB models which are able to generate higher investments. These elements are illustrated in **Table 2-1** above.

For ADB, IBs are "commercially viable firms that either wish to grow from social enterprise status into serving broader markets and achieving higher returns or highly profitable companies that want to deepen their reach towards more valuable social contributions" (p. 2). This is shown in **Figure 2-1**.

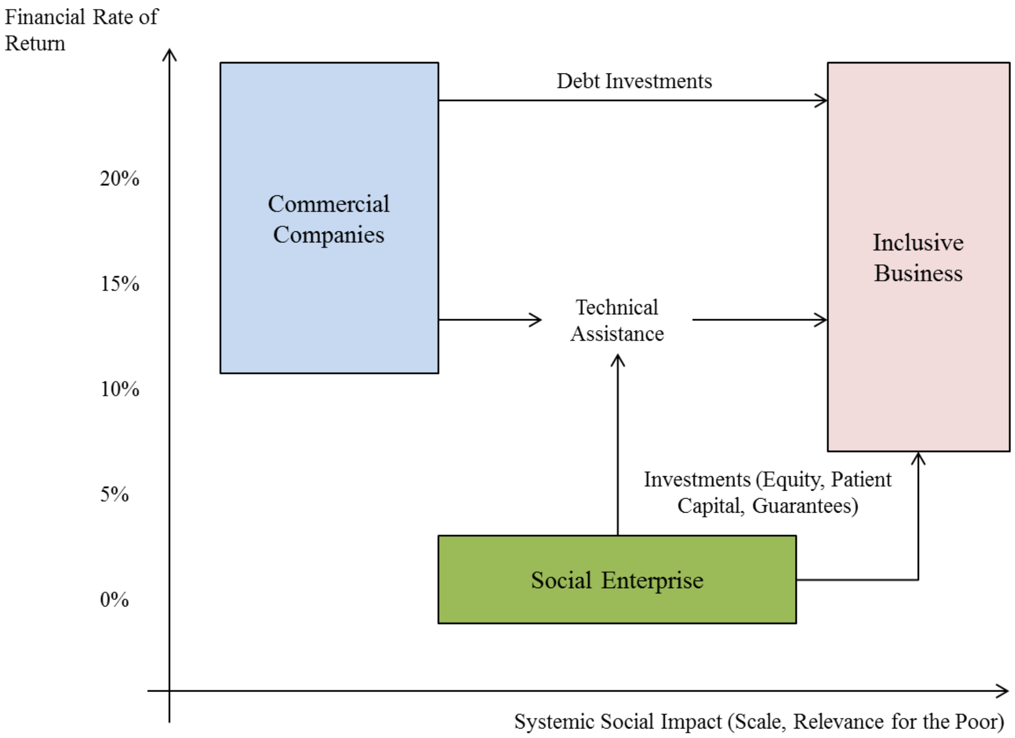


Figure 2-1: Inclusive Business: Balancing Social and Financial Returns

Source: Adapted from Asian Development Bank (2012, p. 2)

Comini, Barki and Aguiar (2012) also attempt to give a conceptual framework for the different trends in social impact businesses and define three approaches to social business: the European approach, where SB is driven by the social and non-profit sectors, the North American approach, which is more market-based and conciliates both financial and social objectives, and the Emerging Countries approach which is based on both private and social sector actors and focuses first and foremost on poverty alleviation. The North American perspective is defined as any market entrepreneur activity that has social impact within its business action where scale is extremely relevant, where profits are redistributed according to market logic and which is essentially catalyzed by MNCs. In this perspective, IB would correspond closest to the North American approach of SB defined by Comini, Barki and Aguiar (2012).

In brief, we can summarize the difference between IB and SB on the following points:

- A stronger profit making motive for IB than SB
- A higher scale and scalability of social impact for IB than SB
- A larger size of investments needed for IB than SB

The concept of IB echoes the discussion on how businesses can target the four billion people composing the BoP, started with Prahalad and Hart's pioneering article *The Fortune at the Bottom of the Pyramid* (2002) which stimulated a wave of innovative thinking on how companies can contribute to poverty reduction through their core business activity rather than merely through Corporate Social Responsibility (CSR) and philanthropic policies. In these IB models, achieving the "triple bottom line" – people, planet and profit (Elkington, 1997) – has emerged as a business imperative whereby firms should seek to optimize the interests of all their stakeholders, that is to say any entity or person on which, in a narrow sense, "the organization is dependent for its continued survival" and in a broader sense, "who can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives" (Freeman & Reed, 1983, p. 91), rather than just their shareholders.

While Prahalad and Hart's initial discussion focused primarily on how businesses can target the BoP as consumers by making their products more available, accessible and affordable to the poor, other authors responded that the only way companies can truly empower the poor is by raising real income and economic opportunities for the BoP as producers (Landrum, 2007; Karnani, 2007). Indeed, as emphasized by Karnani, "by far, the best way to alleviate poverty is to raise the income of the poor and to emphasize buying from the poor rather than selling to the poor" (2007, p. 102). According to these authors, the real discussion on how business can be inclusive of the BoP lies in the participation of the poor in production rather than consumption.

Concurrently, in recent years, the broader international community has started taking part in the discussion and putting IB, and especially IB in the food industry targeting smallholder production in developing countries, on the international development agenda (Audsley, 2011). The Inter-American Development Bank's (IDB) "Opportunities for the Majority" program, the ADB's "Inclusive Business Initiative", the International Finance Corporation's (IFC) "Inclusive Business Models Group", the United Nation's "Growing Inclusive Markets" program and the WBCSD's "Alliance for Inclusive Business", to name only a few, bring support to IB initiatives by providing financial investments and facilitating knowledge building and dissemination. Similarly, multi-stakeholder-led initiatives in collaboration with the private sector have appeared in recent years to build efforts around inclusive business targeting smallholder agriculture. For example, the World Economic Forum's (WEF) "New Vision for Agriculture" launched in 2012 is a platform to build joint efforts among 28 agribusiness MNCs and 14 third sector stakeholders (including governments, international civil society organizations and bilateral development agencies) to meet three objectives: food security, environmental sustainability and economic opportunity for smallholder farmers. Citing research carried out by the UK's Department of International Development (DFID)[1], Zapata, Vazquez-Brust and Plaza-Ubeda say: "The sustainable small-entrepreneur business model […] has the greatest chance of success when small farm businesses are integrated into global or national supply chains in ways that promote institutional clustering and greater value-added to the producers" (2010, p. 2).

IB is thus a new archetype for market-based social impact generation through the core business activity of commercially profitable firms that has gained significant attention as an auspicious way to approach issues related to poverty and livelihoods in developing countries, and that contributes to enriching the definition of the socially-minded enterprise. The benefits of IB models for companies and low-income suppliers are presented in **Table 2-2** below.

[1] DFID (2009). *Eliminating World Poverty: Building Our Common Future*. Background paper to the DFID conference on the future of international development, March 2009. London: DFID

For Companies	For Low-income Suppliers
• Secure supply of raw materials • Traceability and quality control of raw materials • Lower transactions costs • Shared risks • Access to knowledge and local networks • Better relations with government • Strategic positioning in new fair trade markets	• Fair prices and conditions • Assured sales • Employment creation and expansion • Training and technical assistance • Technology and knowledge transfer • Access to financing • Participation in a business and investment environment

Table 2-2. Benefits of Inclusive Business

Source: SNV and WBCSD, 2010.

2.1.2. Smallholder Agriculture Procurement Schemes

Different types of buyer-led strategies to engage with low-income producers in food supply chains in developing countries have emerged with varying degrees of intermediation, from direct smallholder contracting to indirect purchasing from farmers through chain intermediaries. Contract farming is one of the most common procurement schemes to directly connect smallholder farming to agribusiness companies without intermediation, however other sourcing models exist such as indirect purchasing from smallholder linking firms and cooperatives or deep procurement (Gradl et al., 2012).

2.1.2.1. Contract Farming

Contract farming is a sourcing model based on the integration of a smallholder directly in a company's supply chain and the elimination of all intermediaries (middlemen) in the value chain. It is most efficient when companies have specific quality requirements or want to increase their control over the supply chain in order to source at a lower cost and higher quality from producers. Generally, contract farming consists in pre-agreed buy-back agreements between farmers and buyers, where companies provide upfront inputs (credit, seeds, fertilizers, technical assistance) in exchange for exclusive access to the resulting product in a specified quantity and quality, which the farmer delivers at an agreed-upon date and price (Gradl et al., 2012; Prowse, 2008; Vermeulen & Cotula, 2010). It is particularly appropriate and effective for highly perishable and labor-intensive crops; however there is little experience in using this partnership model for crops that require high economies of scale, such as grains (Vermeulen & Cotula, 2010).

The World Development Report 2008 (World Bank, 2007) emphasizes the importance of contract farming as an opportunity to strengthen smallholder production and to reduce rural poverty. The benefits of contract farming business models for multinational agribusinesses range from strengthening the company's position in a local market or region to securing consistent supply at a lower cost, improving quality, accessing HVF and differentiated agricultural products, expanding the supplier base, constructing closer-knit relations with suppliers and building community goodwill (Vorley, Lundy and MacGregor, 2008; Gradl et al., 2012; Hills, Russell, Borgonovi, Doty and Lyer, 2012; WEF, 2009, 2013). Farmers also benefit from these programs in different ways by entering reliable channels to market their produce with a guaranteed pricing structure, raising their agricultural yields, having access to better agricultural inputs and technology, gaining managerial skills and farming knowledge through technical assistance, accessing credit and reducing exposure to risk (Gradl et al., 2012; Prowse, 2008; Van Djik & Trienekens, 2009; Sjauw-Koen-Fa, 2012; WEF, 2009).

However, risks associated to contract farming also exist. For farmers, these contracts often imply a loss of autonomy in farm management and decision-making, as well as a situation of monopsony, characterized by the farmer's dependence on a single buyer which often undermines the farmer's negotiation power (Vermeulen & Cotula, 2010). Moreover, it is not an equally accessible opportunity for all smallholders: very low-income smallholders who lack the basic resources and technical capacities considered as the "minimum requirement" by contracting agribusiness are generally excluded from these schemes (HLPE, 2013). For firms, disadvantages of contract farming include higher transaction costs than open-market sourcing and assuming complete market-price risk because of fixed price arrangements with the farmers (Gradl et al., 2012). In this respect, producer associations can play an important role in ensuring the stability of buyer-seller partnerships in contract farming (Prowse, 2008).

2.1.2.2. Deep Procurement

Deep procurement is a business model that enables agribusiness buyers to bypass chain intermediaries and source directly from smallholders without such strictly coordinated agreements as in contract farming. Generally, transactions in deep procurement schemes are based on spot-market prices and contain little or no specified quantities. Farmers deliver their agricultural product to the company's collection facilities (in certain sectors, companies will be in charge of collection) and product quality is controlled at the entry of the collection facility. In certain cases, the company provides technical training to its smallholder suppliers or forms a partnership with an external extension organization that ensures this training (Gradl et al., 2012).

Deep procurement is particularly appropriate for companies sourcing products that require systematic quality control but that do not want to bear the cost of a vertically integrated supply base (Gradl et al, 2012; Simmons, 2003). Moreover, it imposes fewer requirements on smallholders than contract farming in terms of production practices and quality standards, making it a more accessible channel for more resource-poor farmers to sell their produce. Finally, smallholders can benefit from the capacity building programs that are generally associated with deep procurement schemes.

2.1.2.3. Indirect Purchase

Indirect purchase is the business model that has the highest degree of intermediaries in the value chain among the three presented in this section, or in other words, the model where the smallholder and the company have the least contact. Companies source indirectly from smallholders by relying on a smallholder linking firm (this can be a producer cooperative or an agribusiness trader) that collects the agricultural product from smallholders and sells it to the buying company. The focal company has no direct contact with the smallholder suppliers, making this scheme more appropriate for firms seeking high volumes and lacking the necessary infrastructure to reach the smallholders and collect the product (Gradl et al., 2012).

This is an advantageous sourcing scheme for companies that do not want to build their own production-collection infrastructure, however it requires finding a reliable smallholder linking firm. Moreover, the traceability of products and control of quality can be recurring issues (Gradl et al., 2012). However, it can allow companies to avoid significant costs, especially if the linking firm brings inputs to the farmers and a certain number of value-added services such as sorting, storing and transport. For smallholders, the advantage is to be integrated in a marketing channel intermediated by a local player where farmer grouping mechanisms can find more voice. However, the farmer faces higher vulnerability to risk in this type of procurement scheme than in contract farming.

2.2. Definitions and Current Issues Surrounding Smallholder Agriculture

Defining smallholder agriculture is no easy task: indeed, there is considerable discrepancy between authors on what can be considered as a characteristic of a smallholder farmer and there exists a multitude of terms to refer to this type of agriculture such as "small-scale farming", "resource-poor farming", "smallholder agriculture" or "family agriculture". The debate on the definition of the smallholder farmer separates on the one hand those who support using a quantifiable definition based on the size of the landholding, and on the other hand, those who argue that other components such as availability of resources, sources of income, origin of labor and context must be factored in the definition.

The most commonly used definition of smallholder farmers today remains the size of the landholding, typically set at 2 hectares of cropland or less. Such is the definition adopted by the World Bank and the Food and Agriculture Organization (FAO). Authors have underlined the various problems of this definition. First of all, its shortcomings come from the fact that it does not factor in the quality of resources and inputs, the farmer's ability to sustain a livelihood, nor factors pertaining to the external environment such as climate, institutions, market access and available opportunities (Nagayets, 2005; HLPE, 2013). Second of all, this definition is not relevant for all regions or crops (HLPE, 2013; Narayan & Gulati, 2002; Von Braun, 2005). Dixon, Taniguchi, Wattenbach, and Tanyeri-Arbur (2004) point out the relative nature of smallholder agriculture, meaning that a farmer has limited resource endowments relatively to the endowments of other farmers in the sector, making the definition of the smallholder differ largely between countries and climatic regions.

In fact, many authors point to the fact that the 2 hectares measure is highly inadequate with the reality of agriculture and smallholdings in Latin America, where the average farm size is 67 hectares compared to a mere 1.6 hectares in Africa and Asia (Von Braun, 2005). As a result, when using the "2 hectares or less" definition, only 1% of smallholders in the world are located in South America, which is a drastic underestimation of their real number (Nagayets, 2005).

Notwithstanding, there is common ground that the smallholder's main feature is to depend on family as a source of labor (HLPE, 2013; Narayan & Gulati, 2002; Toulmin & Guèye, 2003; Vermeulen & Cotula, 2010). Narayan and Gulati (2002, p. 5) define a smallholder as "a farmer (crop or livestock) practicing a mix of commercial and subsistence production or, where the family provides the majority of labor and the farm provides the principal source of income". Berdegue and Fuentealba (2011), citing the framework developed by Berdegue and Escobar[2] (2002), add the dimensions of assets and context to characterize smallholders: the degree to which a farmer is resource-rich (or resource-poor) and to which the environment is favorable (or unfavorable) will play a significant role on productivity potential and market access, regardless of the size of the landholding. Finally, low tolerance for risk and a preference for "safety first" characterizes resource-poor smallholder farmers across regions and landholdings (Simmons, 2003).

As pointed out by the set of definitions reviewed in this section, smallholders in developing countries such as Brazil have a more vulnerable standing in markets than well-established commercial farms, and as a result face higher exclusion from market opportunities. In fact, they are easily locked into a "vicious cycle" because of poor infrastructure, insufficient capacity, lack of access to capital and financial services, higher vulnerability to risk, and weak institutional support, (WEF, 2009, p. 14). This vicious cycle works as a poverty trap for smallholder farmers who are unable to generate higher income or production capacity.

[2] Berdegué, J.A., & Escobar, G. (2002). *Rural diversity, agricultural innovation policies and poverty reduction*. AgREN Network Paper No. 122. London: Overseas Development Institute.

3. LITERATURE REVIEW

3.1.Supply Chain Management: Managing Buyer-Supplier Relations

3.1.1. Definitions: Supply Chain and Supply Chain Management

Research on Supply Chain Management (SCM) has received tremendous attention since the 1980s with the rapid growth of global competition and integration of business operations. Companies realized the need to improve efficiencies through both inward-looking and outward-looking approaches (Li, Ragu-Nathan, Ragu-Nathan, & Subba Rao, 2006). The concept of SCM appeared in the 1980s (Oliver & Webber, 1992) with the idea that managing supply chains is about more than just logistics and encompasses a wide range of cross-functional business processes and competencies that work together to deliver value to the ultimate consumer (Christopher, 1992; Cooper, Ellram, Gardner, & Hanks, 1997; Cooper, Lambert, & Pagh, 1997; La Londe & Masters, 1994; Mentzer, Dewitt, Keebler, Min, Nix, Smith, & Zacharia, 2001). Business processes that are directly or indirectly related to SCM range from procurement and product development to customer relationship management as well as logistics, distribution and information systems (Chen & Paulraj, 2004; Fischer, 1997; Carr & Pearson, 1999; Li et al., 2006; Lambert, Cooper & Pagh, 1998; Cooper et al., 1997; Inkpen & Tsang, 2005).

SCM literature has widely focused on stressing the importance of relationship management, that is to say, the ability of an organization to strategically manage the complexity of interactions and relationships involved in the supply chain at different tiers (Mentzer et al., 2001). Lambert (2008, p. 6) contends that “at the end of the day, supply chain management is about relationship management”. This focus on establishing collaborative relationships between buyer and supplier is based on the recognition that supply chain partners are interdependent and can mutually influence each other’s success and the overall performance of the supply chain (Cooper et al., 1997; Anderson & Narus, 1990; Kumar, 1996).

The majority of theories that have emerged in SCM literature support the two central ideas that: firstly, SCM does not restrict itself to the sole buyer-supplier relationship and encompasses a wider scope of organizational aspects that span from the early stages of product development all the way to distribution to the final customer; secondly, that a high degree of intra-firm and inter-firm integration and collaboration is needed in SCM strategy in order to produce positive outcomes on overall firm performance (Stank, Keller, & Daugherty, 2001).

3.1.2. Collaboration in Supply Chain Relationships

Establishing an appropriate supplier relationship management strategy is central to SCM. According to Lambert (2008, p. 56), "the supplier network is a key part of profitable business development". Indeed, the supplier has direct impact on a focal firm's bottom line by playing a role in responding to demand variations and determining the quality and time-to-market of products (Christopher, 2005; Lambert, 2008). As a result, SCM has turned its focus on supplier relationship management and collaboration strategies. Different terms and expressions in the literature refer to the relationship between buyer and supplier as a "partnership" rather than a one-time business transaction, suggesting the imperative for companies to develop collaborative ties with their suppliers. Particularly noteworthy are the references to "strategic supplier partnerships" (Li et al., 2006), "working partnerships" (Anderson & Narus, 1990), "partner cooperation" (Das & Teng, 1998), "supply chain partners" (Chen & Paulraj, 2004; Chu & Fang, 2006), "supplier partnerships" (Morgan & Hunt, 1994), "purchasing partnerships" (Ellram, 1995), and even an analogy with the social sciences literature on husband-wife relationships through the reference to the "marriage of buyer and seller" (Dwyer, Schurr, & Oh, 1987), underlining the idea that B-S relationships need to go beyond discrete transactions and establish more long-term business linkages.

Authors have underlined the multiple benefits of establishing collaborative company-supplier relationships on overall business performance and competitive advantage, such as reduced costs and higher productivity (Cox et al., 2003; Dyer, 1997; Li et al., 2006; Fischer, 1997), enhanced logistical performance and efficiency (Stank et al., 2001), the creation of mutually beneficial strategic outcomes (Jap, 1999) and increased "social capital" facilitating access to knowledge and resources within the B-S network (Inkpen & Tsang, 2005). Authors have also coined the expression "pie expansion" to refer to the increased share that each party will receive as a result of their collaborative efforts and that they could not have generated alone (Jap, 1999), underlining the inherent interdependence between buyer and supplier in creating business value together in the supply chain. Similarly, in a study on risks in food supply chains, Roth, Tsay, Pullman and Gray (2008) point out that close relationships with suppliers along with traceability and quality certification can lower risks and enhance trust in the supply chain while yielding higher performance and margins for food companies, as customers are willing to pay a higher price to ensure quality in growing and processing practices.

Based on Cannon and Perreault's (1999) taxonomy of buyer-seller relationship connectors, we can identify five fundamental processes to strengthen collaboration between supply chain partners: information exchange, operational linkages, legal bonds, cooperative norms and relationship-specific adaptations.

3.1.2.1. Information Exchange

Information exchange is the expectation of open sharing of information that may be useful to both parties (Cannon & Perreault, 1999). Access to resources and knowledge of the partner firm is considered one of the most important mutually strategic benefits generated by collaborative B-S relationships (Barnes & Liao, 2012; Inkpen & Tsang, 2005). This can imply sharing important data related to inventory levels, sales and demand forecasts, proprietary information as well as involving suppliers in early stages of product development and planning (Cox et al., 2003). Indeed, establishing frequent and genuine communication can reduce the risk of product deficiencies and ease potential uncertainties on one's partner. Therefore, information exchange can increase commitment of both parties in the relationship (Anderson & Narus, 1990) and trust by assisting in resolving disputes and aligning expectations (Morgan & Hunt, 1994).

3.1.2.2. Operational Linkages

Operational linkages are the degree of integration of the systems, procedures, and routines of the focal firm and its suppliers in order to facilitate operations and ease the flow of goods, services and information (Cannon & Perreault, 1999). These linkages are also referred to as "logistics integration" and consist in the joint completion of supply chain operations such as transportation, warehousing, purchasing and distribution across the boundaries of each individual firm in order to carry out a unitary process (Chen & Paulraj, 2004). These linkages can facilitate exchanges and reduce costs for each of the partner firms, but they will also unavoidably increase interdependence between the partners and therefore the cost of terminating the relationship (Cannon & Perreault, 1999).

3.1.2.3. Legal Bonds

Cannon and Perreault (1999) define legal bonds as binding contractual agreements that specify the obligations and roles of both parties in the relationship and provide a governance framework. In certain cases, they can also establish hierarchy in the relationship. The purpose of contractual agreements is to reduce environmental uncertainties, plan contingencies and share potential risks (Miles, Snow, & Pfeffer, 1974; Das & Teng, 1998). Gulati (1995) upholds that contracts breed confidence through partnership formalization and facilitate long-term and repeated ties. However, not all authors agree on the usefulness of contractual agreements: Kumar (1996) underlines that contracts impede the development of flexible relations based on trust. Das and Teng (1998) also make the same negative correlation between legal control and trust, arguing that contracts are mostly useful to deter opportunistic behaviors when one partner deems the other potentially unreliable.

3.1.2.4. Cooperative Norms

As defined by Cannon and Perreault (1999), cooperative norms reflect expectations the two parties have about working together to achieve mutual and individual goals jointly. Establishing cooperative norms can foster commitment, prescribe stewardship behaviors and enhance the understanding of both parties of their interdependence (Morgan & Hunt, 1994; Anderson & Narus, 1990; Cai, Yang & Jun, 2011). Morgan and Hunt (1994, p. 25) contend that shared values is “the extent to which partners have beliefs in common about what behaviors, goals and policies are important or unimportant, appropriate or inappropriate, and right or wrong”. Cai et al. (2011) found that cooperative norms are a form of relational capital that can improve supplier performance.

3.1.2.5. Relationship-specific adaptations

Cannon and Perreault (1999) define relationship-specific adaptations as investments in adaptations to process, product, or procedures specific to the needs or capabilities of an exchange partner. These adaptations can concern product characteristics (for ex: organic labeling), production or manufacturing processes (for ex: energy or water-saving agricultural practices, producer certification, etc.), stockholding and planning, delivery, and administrative and financial procedures (Brennan & Turnbull, 1999). These types of adaptations are relationship-specific in so far as they are only relevant in the context of the partnership and are not transferable to relationships with other suppliers (Cox et al., 2003). In that sense, they also raise the potential costs of terminating the relationship and foster commitment (Cannon & Perreault, 1999; Morgan & Hunt, 1994).

Supplier development programs would fall under the category of relationship-specific adaptations, and are a particularly important operational aspect of collaborative SCM strategies. Supplier development is the effort of a buying firm to increase the performance and capabilities of the supplier in order to meet the buying firm's short and long-term supply needs (Krause & Ellram, 1997; Li, Humphreys, Yeung, & Cheng, 2011; Handfield, Krause, Scannell, & Monczka, 2000). Increasingly, companies see the benefits of capitalizing on the improvement of supplier capabilities, for example through direct involvement in production processes, supplier training, certification, providing inputs, evaluating performance and rewarding progress (Galt and Dale, 1991; Monczka, Trent, & Callahan, 1993; Modi & Mabert, 2007; Cox et al., 2003). Many studies have shown that investing in supplier development can lead to both improvement of supplier performance and increase in-company competitive advantage (Li et al., 2011; Humphreys, Li, & Chan, 2004; Lettice, Wyatt, & Evans, 2010).

3.2.Relationship Marketing

3.2.1. Relationship Marketing: From Transactional Exchanges to Relational Exchanges

The stream of thought that closer collaboration is needed in B-S relations emerged in a context where more and more authors and practitioners perceived that competition in the global economy no longer occurred between companies as stand-alone entities but rather between networks of companies (Morgan & Hunt, 1994; Chen & Paulraj, 2004) or as some authors describe it, between supply chains (Christopher, 2005; Li et al., 2006; Cox et al., 2003). Within this "network paradigm" (Morgan & Hunt, 1994), companies need to strive towards gaining "collaborative advantage" (Huxham, 1996) by building more close-knit relations with their business partners.

This shift in today's complex business environment to the idea that "competition requires collaboration" (Morgan & Hunt, 1994, p. 20) has pushed forward the ideas that companies must strategically capitalize on the relationships with various stakeholders (suppliers, customers, employees) by developing "value-adding networks" (Christopher 2005), investing in network capabilities, knowledge and resources (Inkpen & Tsang, 2005) and achieving competitive edge through enhanced synergies with their supply chain partners (Barnes & Liao, 2012). As stated by Kumar (1996, p. 98), "no company is an island". In other words acquiring competitive advantage entails enhancing performance on an individual, intra-firm basis and developing the performance of the whole supply chain on a collaborative, inter-firm basis.

This framework provided the basis for RM theories, which focus on the role of relationships in business transactions. The core idea of RM theory is that a company's performance does not solely rely on discrete transactions (customer sales and cost-effective operations), characterized by short duration and limited communication, but also, increasingly, on relational exchanges, which "transpire over time" and "must be viewed in terms of their history and anticipated future" (Dwyer, Schurr & Oh, 1987; Morgan & Hunt, 1994). In other words, rather than maximizing profits through the multiplication of discrete transactions (transactional exchanges), companies can strengthen their competitive advantage and market positioning by developing, maintaining and capitalizing on relationships with their existing business stakeholders (relational exchanges).

Authors also make the distinction between traditional, arm's length relationships and collaborative relationships (Cox et al., 2003; Hornibrook, et al., 2009), the former being characterized by their focus on price negotiations, operational improvements and low involvement between the two parties, while the latter function as strategic partnerships where gains resulting from joint product development, integration of business processes, shared investments, and increased knowledge provide advantages to both firms (Cousins & Lawson, 2007; Hornibrook, et al., 2009). In the context of supply chains, RM implies that the exchange between a focal firm and its suppliers needs to shift from a purely transactional buyer-seller interaction to a longer-term relational exchange where both partners seek mutual benefits.

3.2.2. Trust and Commitment: The Two Pillars of Relational Exchanges

In RM literature, trust and commitment are presented as the pillars for the development and continuity of channel member relationships. Morgan and Hunt (1994) consider that relationship commitment and trust are the key mediating variables between five antecedents (relationship termination costs, relationship benefits, shared values, communication and opportunistic behavior) and five outcomes (acquiescence, propensity to leave, cooperation, functional conflict and decision-making uncertainty) in a business relationship characterized by relational focus rather than discrete transaction. They also argue that the use of coercive power by one powerful partner to gain acquiescence of the other results in the destruction of trust and commitment as well as the increase of conflict. **Figure 3-1** illustrates Morgan and Hunt's Key Mediating Variable (KMV) model.

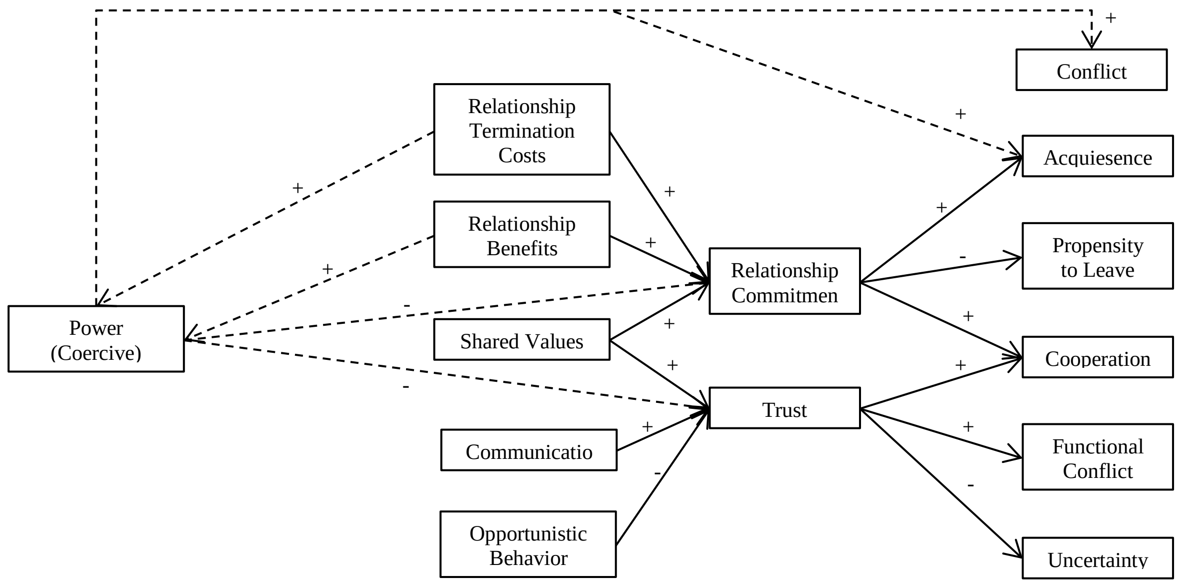


Figure 3-1. The KMV Model of Relationship Marketing

Source: Morgan & Hunt, 1994.

In Morgan and Hunt's KMV Model of Relationship Marketing, trust is defined as one's "confidence in an exchange partner's reliability and integrity […] associated with such qualities as [being] consistent, competent, honest, fair, responsible, helpful and benevolent" (1994, p. 23), and relationship commitment as "an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it" (1994, p. 23).

Many other authors underline the importance of both commitment and trust as the foundations in the successful management of inter-organizational relationships. Christopher (2005, p. 122) argues that “in the ‘extended enterprise’, as it is often called, there can be no boundaries and an ethos of trust and commitment must prevail”. Referring explicitly to SCM, La Londe and Masters (1994) contend that developing “high levels of trust and commitment in the relationship” and establishing a “co-operative, team-oriented enterprise where each party is looking out for the interests of the other party as well as its own concerns” is a fundamental part of supply chain strategy.

On the subject of trust, Chen and Paulraj (2004) argue that trust is conveyed through faith, reliance, belief or confidence in the supply partner and is viewed as willingness to forego opportunistic behavior. Kumar (1996) argues that trust implies dependability and believing that partners are reliable and will honor their word. Morgan and Hunt (1994) insist on the notion of an exchange partner’s reliability and integrity. Trust also encompasses the idea of honoring partner expectations (Anderson & Narus, 1990; Dwyer, Schurr & Oh, 1987). According to Das and Teng (1998), trust is an antecedent of confidence in partner cooperation and is achieved over time as organizations develop close bonds and form a positive attitude regarding each other’s reliability. Moreover, Das and Teng (1998) underline the supplementary relationship between trust and control in a business exchange. This view is also supported by Kumar (1996) who claims that a trusting party will not feel the need to monitor its counterpart’s behavior. Barnes and Liao (2012, p. 890) discuss the concept of collaborative awareness, defined as “the extent to which a firm perceives its trust in and committed relationship with their supply chain partners”. The variety of definitions and references to trust in partnership theory literature highlight the importance of several common notions such as confidence and belief, reliability and consistency of a partner as well as the idea of “keeping one’s word”. Consequently, trust does not necessarily emerge naturally from a contractual relationship and implies the existence of intrinsic, ethical values shared by both partners. On the contrary, doubt, uncertainty and suspicion that a partner will act opportunistically all produce a negative impact on trust in a partnership.

Similarly, literature highlights the importance of commitment between supply chain partners. Chen and Paulraj (2004) argue that commitment implies dedicating resources to sustaining and furthering the goals of the supply chain. Commitment is also associated with the idea of willingness (Anderson & Weitz, 1992; Barnes & Liao, 2012) and implies that partners are demonstrating voluntary actions in favor of the relationship, whereas trust is a passive quality of a relationship that results from one's confidence that an exchange partner will not be deceitful. The RM literature has also distinguished between two forms of relationship commitment, namely affective commitment, which is characterized by an exchange party's emotional attachment and feeling of loyalty toward its partner, and calculative commitment, which is characterized by the exchange party's need to preserve the relationship based on a calculation of the costs and benefits of the relationship (Ganesan, Brown, Mariadoss, & Ho, 2010; Geyskens, Steenkamp, Schoer, & Kumar, 1996; Mathieu & Zajac, 1990). Authors also point to the notion that commitment implies the establishment of a long-term relationship in which partners agree upon pursuing mutual goals and put aside opportunistic behavior for the sake of the partnership's success and sustainability (Dwyer, Schurr & Oh, 1987; Chen & Paulraj, 2004; Morgan & Hunt, 1994). Relationship commitment increases predictability and flexibility in the exchange, encourages cooperation and reduces the propensity for a partner to leave the relationship (Brown, Lusch & Nicholson, 1995; Morgan & Hunt, 1994).

The definitions of both trust and commitment seem to converge on the fact that partner relationships that display trust and commitment will have a higher propensity to be established on a long-term duration and to diminish the risk and uncertainty of opportunistic behavior occurring from the other party. **Table 3-1** gives an overview of the most commonly used definitions and references to trust and commitment in the existing literature.

Author(s)	Trust
Chen & Paulraj (2004)	"Trust is conveyed through faith, reliance, belief or confidence in the supply partner and is viewed as willingness to forgo opportunistic behavior. Trust is one's belief that one's supply chain partner will act in a consistent manner and do what he/she promises." (p. 141)
Morgan & Hunt (1994)	"…when one party has confidence in an exchange partner's reliability and integrity." (p. 23)
Anderson & Narus (1990)	"The firm's belief that another company will perform actions that will result in positive outcomes for the firm, as well as not take unexpected actions that would result in negative outcomes for the firm." (p. 45)
Das & Teng (1998)	"Trust is believed to be a source of confidence because, by definition, trust is the degree to which the trustor holds a positive attitude towards a trustee's goodwill and reliability in a risky exchange situation" (p. 494)
Kumar (1996)	"What really distinguishes trusting from distrusting relationships is the ability of the parties to make a leap of faith: they believe that each is interested in the other's welfare and that neither will act without first considering the action's impact on the other." (p. 95)
Dwyer, Schurr, & Oh (1987)	"The belief that a party's word or promise is reliable and a party will fulfill his/her obligations in an exchange relationship." (p. 18)
Barnes & Liao (2012)	"Successful supply chain relationships should consist of partners that are willing to provide assistance to one another without exception; it is a relationship both parties are committed to and satisfied with. A relationship such as this, built on trust and commitment, should in turn result in an investment in strategic partnership" (p. 889)
	Commitment
Chen & Paulraj (2004)	"Committed partners dedicate resources to sustaining and furthering the goals of the supply chain. To a large degree, commitment makes it more difficult for partners to act in ways that might adversely affect overall supply chain performance." (p. 141)
Morgan & Hunt (1994)	"…an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it; that is, the committed party believes the relationship is worth working on to ensure that it endures indefinitely." (p. 23)
Dwyer, Schurr & Oh (1974)	"An implicit or explicit pledge of relational continuity between exchange partners. At this most advanced phase of buyer-seller interdependence the exchange partners have achieved a level of satisfaction from the exchange process that virtually precludes other primary exchange partners who could provide similar benefits." (p. 19)
Anderson & Weitz (1992)	"Commitment to a relationship entails the desire to develop a stable relationship, a willingness to make short-term sacrifices to maintain the relationship, and a confidence in the stability of the relationship" (p. 19)
Geyskens et al. (1996)	"Affectively motivated commitment […] is a generalized sense of positive regard for, and attachment to the organization […]. Calculative commitment, in contrast, is the extent to which channel members perceive the *need* to maintain a relationship given the significant anticipated termination or switching costs associated with leaving."

Table 3-1. Overview of Definitions of Trust and Commitment in Relationship Marketing Literature

Source: Author

However, it is difficult to generalize trust and commitment as "all-encompassing" guidelines for relationship management strategies (Kumar, 1996). As pointed out by Cox et al. (2003), instituting collaboration as a "best-practice" in supplier relationship management (as opposed to "arm's length" relationships), without taking into account other multiple dimensions and manifestations of collaboration such as power, influence and dependence, can lead to simplifications. In other words, the establishment of close, long-term, collaborative relationships between supply chain partners does not necessarily imply that the relationship is non-adversarial, balanced or satisfactory for both parties. More often than not, power and influence play a central role in the relationship between supply chain partners, creating dependence of one party toward the other.

3.3.Power and Dependence in the Buyer-Supplier Relationship

3.3.1. Power Resources and Uses

Many theoretical and empirical studies have looked at the role of power in B-S relationships and in distribution channels. Emerson (1962) defines power of an actor A over B as based on the dependence of B upon A, the idea being that power is not necessarily an objective ability of actor A but more the *potential* of A to influence B based on B's willingness to yield power to A (Frazier, 1983). In the context of a supply chain, a buyer's power is the ability to overcome the supplier's resistance to acquiring value for money (Cox et al., 2003). A buyer's power comes from three sources according to Cox, Sanderson and Watson. (2000): utility, scarcity and information.

- **Utility** is the extent to which the buyer's demand accounts for a significant portion of the supplier's turnover. In the case of monopsony, for example where there is only one buyer for several suppliers (as in the case of most B-S relationships in contract farming), the buyer's utility to the supplier is on the higher end of the utility continuum, imparting significant power to the buyer.
- **Scarcity** is the extent to which the supplier has other equivalent exchange opportunities available to him in the market. The fewer the available equivalent opportunities to the supplier, the more the buyer is in a powerful position compared to the supplier.
- **Information** is the ability for the buyer to monitor and limit supplier opportunism, and to accurately ascertain the value for money of the supplier's

product before purchase. For example, a company that compensates farmers based quality is in fact exercising its ability to ascertain the value for money of the farmer's product and to limit supplier opportunism.

When one of the channel members possesses these power resources, there are different ways that they can be used. According to the taxonomy developed by French and Raven (1959), there are five types of power such as coercive, reward, expert, legitimate and referent.

- Coercive is the ability of one partner to punish or sanction the other through the use of coercion.
- Reward is the ability of one partner to offer rewards to the other
- Expert is the ability of one partner to influence the other based on the use of knowledge and expertise in a given area.
- Legitimate is the ability of one partner to influence the other based on the recognition of their legitimacy to impact decisions.
- Referent is the power that one partner derives from the other's feeling of identification and desire of association.

Belaya, Gagalyuk, & Hanf (2008) argue that supply chain networks are not naturally prone to being symmetrical relationships because of their strictly coordinated nature by a downstream focal firm. They use French and Raven's taxonomy of power to illustrate the ability of a focal company to use power with its network members. These examples are replicated in **Table 3-2**.

Type of Power	Illustration in the context of supply chain relationships
Coercive	"… The fear of a network member of being punished if it fails to comply with the requirements of the focal company."
Reward	"If a focal company can mediate rewards because of access to resources that are valuable for other network actors, it can make these actors perform in a desired way."
Expert	"…the expert power of a focal company can be achieved if the network actors believe that it possesses a special knowledge valuable for them."
Legitimate	"…a focal actor is recognized in the eyes of the network members as having a right to make specific decisions."
Referent	"In the supply chain context this power is observed when network actors want to join a network."

Table 3-2. Exercise of sources of power in supply chain relationships

Source: Adapted from Belaya et al., 2008, p. 170. Table elaborated by the author.

Hunt and Nevin (1974) also use French and Raven's classification to distinguish coercive and non-coercive (reward, expert, legitimate, referent) sources of power in an empirical study of franchisor-franchisee relations. They define power in this context as the potential ability of the controlling or influencing agent as perceived by the controlee or influencee. Similar to Belaya et al.'s view of B-S relationships, Hunt and Nevin (1974) underline the "unilateral dependency" nature of the franchisor-franchisee relationship in which the franchisees unavoidably depend on the franchisor. They found that franchisors were able to increase the satisfaction of their franchisees by relying more on non-coercive sources of power (for example through assistance, training, field supervision and selling equipment or supplies) than on coercive sources of power (control of land, restricting rights, unfair contracts, etc.).

3.3.2. Power Asymmetries and Dependence

B-S relationships characterized by a high level of power asymmetry can be dysfunctional in so far as the more powerful partner can be tempted to exploit these power resources at the expense of the weaker party in the exchange (Anderson & Weitz, 1989). These power asymmetries can lead to unproductive relationships characterized by one partner being "hostage" of the other (Kumar 1996, p. 98; McDonald, 1999). Uneven power in the B-S relationship is often also symptomatic of the weaker party's dependence on the more powerful one.

Power and dependence are closely related concepts in so far as the supplier's dependence on a buyer yields power to the buyer and vice-versa (Caniëls & Gelderman, 2005). Dependence of a supplier on a buyer in a commercial relationship, and the resulting influence and power bestowed upon the buyer, is a topic that has been largely covered in the literature on channel working partnerships (Anderson and Narus 1990; Buchanan, 1992; Cox et al. 2003; Caniëls & Gelderman, 2005; Geyskens, et al., 1996; Kumar, Scheer, & Steenkamp, 1995). Authors speak of relative power of an organization and the consequence of the net dependence of one on the other (Pfeffer, 1981; Caniëls & Gelderman, 2005). Similarly, Anderson and Narus (1990) place "relative dependence" of one partner as the antecedent of the other's power, in so far as dependence naturally imparts influence to the more independent partner. Relative dependence is defined as a firm's perceived difference between its own and its partner firm's dependence on the working partnership. For example, the more a firm perceives that its exchange partner has numerous similar alternatives to the partnership, the more it will depend on the relationship *relatively* to its partner and be receptive to its partner's requests, because it has a greater interest in sustaining the relationship. Buchanan (1992) conceptualizes power as the dominance of the most independent party in the relationship. Dependence or influence of one partner over the other in a working partnership can increase the level of resistance from the weaker partner, which in turn enhances conflicts and disagreements (Anderson & Narus, 1990).

In contrast, effective relationships can be built when symmetrical interdependence exists between both partners, meaning that they experience equal levels of dependence on each other (Caniëls & Gelderman, 2005; Geyskens et al., 1996; Kumar, 1996). The existence of interdependence in a B-S relationship can thus reduce initial power asymmetries between the two partners and favor the development of strong, cooperative and long term relationships in which both parties are invested (Caniëls & Gelderman, 2005). When partners are highly interdependent, they are more discouraged to leave the relationship because exit barriers are higher and finding a similar alternative to the exchange partner is more costly (Geyskens et al., 1996). As a result, according to Geyskens et al. (1996), relationships with high levels of interdependence are characterized not only by mutual trust but also a strong degree of calculative commitment.

3.4.Interpersonal Relationships in the Buyer-Supplier Relationship

3.4.1. Interpersonal Relationships and Relationship Loyalty

Several authors examine the role of emotions and interpersonal relations between individuals interacting within business relationships and their impact on trust and organizational commitment (Andersen & Kumar, 2006; Gedeon, Fearne & Poole, 2009; Plank & Newell, 2007). Andersen and Kumar (1996) focus on how individual emotions can affect the continuity of a business relationship and suggest that a lack of positive personal chemistry can account for the failure of certain business relationships. According to Geyskens, Steenkamp and Kumar (1999), a channel member's evaluation of the personal contacts and interactions with its exchange partners, or its social satisfaction, must be taken into account in addition to its economic satisfaction in order to assess its overall satisfaction with the relationship.

Plank and Newell (2007) also support the importance for the buyer and supplier to connect on a personal level. They examined the role of interpersonal relationships on relationship loyalty, and found that personal or “soft” costs had more impact than economic or “hard” costs in determining relationship loyalty, that is to say the ability for a firm to retain its business partners. Loyalty in business relationships has been proved to help build growth and profits (Reichheld, 1996).

Studies on the idea of relationship loyalty stem from the recognition that ongoing, long-term business relationships are more desirable than transactional ones (Sheth & Sharma, 1997; Morgan & Hunt, 1994; Plank & Newell, 2007). Relationship loyalty is directly linked to the inherent value created by the relationship for the buyer and supplier (Payne & Holt, 2001; Reichheld, 1996) and to the quality of the relationship (Parsons, 2002). As underlined by Brennan and Turnbull (1999), having a loyal supplier can enable the buyer to better adapt to changing market conditions, thus supporting the importance of shared loyalty in business relationships (Morris & Homan, 1988). Similarly, Ford, Gadde, Hakansson, Lundgren, Snehota, Turnbull and Wilson (1998) showed that the existence of positive personal contact between business partners can serve as a buffer in times of crisis and result in preferential treatment, favors and partner solidarity.

3.4.2. Perception of Fairness

Within this focus on the importance of interpersonal relationships to develop and sustain channel member business relationships, Fearne, Yawson, Buxton, and Tait (2012) have pointed out the relevance of emotions and perceptions pertaining to fairness in B-S relationships in the agribusiness sector targeting smallholder agriculture in developing countries.

The concept of perception of fairness can be found in the Organizational Justice (OJ) literature which originally focuses on the role of justice and fairness in the workplace. The assumption in OJ theory is that an employee’s perception of fairness in the workplace will result in outcomes relevant to the organization – such as that individual’s commitment or performance (Masterson, Lewis, Goldman, & Taylor, 2000).

Perception of fairness is influenced by four dimensions of justice in the business relationship: distributive justice, procedural justice, interactional justice and informational justice (Colquitt, 2001).

Hornibrook et al. (2009) explore the concept of fairness within the framework of supply chain relationships and the role of interpersonal relationships on the supplier's perception of justice. They develop a conceptual model of organizational justice and perception of fairness relevant to supply chain relationships, arguing that little attention has been paid to the "softer" aspects of supply chain relationships in the literature, that is to say, the role played by the emotions, attitudes, perceptions, behaviors and experiences of the individuals interacting within the supply chain. Indeed, as the authors rightfully point out, "relationships between buyers and sellers are not only concerned with economic transactions but also incorporate social elements" (p. 791). As a result, interpersonal relationships between individuals interacting in a supply chain network can be potentially fruitful or harmful for the evolution of the relationship at the business level. Hornibrook et al. (2009) apply the four dimensions of justice that can affect perception of fairness in B-S relationships:

- Distributive justice is the extent to which outcomes, benefits and burdens are shared equitably between the buyer and supplier, that is to say, consistently with what each one brings to the relationship. It is the fairness of the share of risk and reward received by each party in the business relationship.
- Procedural justice refers to the processes and procedures through which decisions are made concerning the B-S relationship. This dimension of justice encompasses the idea of "voice", meaning the degree to which the weaker party is able to weigh in decision-making processes.
- Interactional justice refers to interpersonal treatment received by one partner from the other in the B-S relationship. It commonly encompasses behaviors and attitudes such as respect, courtesy and politeness in individual interactions.
- Informational justice is concerned by the explanations that individuals receive on the distribution of outcomes, benefits and burdens and on the way procedures are carried out. In an unequal B-S relationship, it refers to the extent to which the weaker partner is knowledgeable on why procedures and decisions are enacted in a certain way.

Hornibrook et al. (2009) highlight the link between fair treatment and the achievement of competitive advantage through supply chain relationships. Treating a weaker partner fairly in an asymmetrical business relationship is a notion that had already been supported by several authors (Kumar, 1996). In addition, Hornibrook et al. (2009) suggest the implications on human resources management, arguing that such important behavioral and social dimensions need to be taken into account by managers in buying organizations when selecting, recruiting and training staff responsible for supply chain management activities.

3.4.3. Outcomes on Organizational Functioning

Interpersonal relationships and perception of fairness can have a lasting impact on the satisfaction of the partners in the relationship and on organizational outcomes such as organizational performance, trust, commitment and behavioral responses within the relationship (Andersen & Kumar, 2006; Plank & Newell, 2007; Hornibrook et al., 2009). Gedeon, Fearne and Poole (2009) present case-study findings on the role of interpersonal relationships and emotional conflict in the dissolution of business relationships and argue that more strategic investment in relationship development could have potentially saved a failed B-S relationship.

Understanding the outcomes of perception of fairness on intra-organizational business relationships is particularly relevant to asymmetrical B-S relationships where power and dependence are embedded within the dynamics of the relationship and can be detrimental to the perception of fairness of the weaker partner. As shown by Gassenheimer, Houston and Davis (1998), conflicting perceptions of fairness between buyer and supplier in a relationship characterized by asymmetrical dependence can directly impact one partner's decision to exit the relationship. Moreover, Kumar (1996) argues that unfair treatment of a weaker partner in a business exchange by its more powerful counterpart directly damages trust, suggesting that the guiding principle of the "trust game" is to pursue what's fair rather than self-interest in order to create trust among partners.

The supplier's perception that the buyer behaves fairly within the four dimensions of justice presented in **sub-section 3.4.2** will also foster positive outcomes in the form of organizational citizenship behaviors (OCBs), such as altruism, courtesy, sportsmanship, conscientiousness and civic virtue which are discretionary in the sense that they are not explicitly rewarded but contribute through aggregation to the effective functioning of the relationship (LePine, Erez, & Johnson, 2002; Hornibrook et al., 2009). In a supply chain network, OCBs are defined as "actions that are over and above that which is formally expected within the terms of supply" (Hornibrook et al., 2009, p. 797).

These theoretical contributions support the notion that interpersonal relationships and perception of fairness contribute to building trust in the buyer-supplier relationship and have an impact on the relationship's sustainability. They also bring to light that a lack of investment in developing interpersonal relationships between the buyer and supplier and a lack of understanding of the other side's perception of fairness can precipitate the relationship to failure, especially in the context of asymmetrical relationships.

4. METHODOLOGY

This research was based on a qualitative rather than quantitative approach. The relevance of this choice is justified in the first section of this chapter. Moreover, a grounded theory (GT) methodology was chosen to collect and analyze the data. The aim of the following section is to present the methodology adopted for this study and the rationale for its use. The iterative methodological approach used for the development of the research question, the data collection, the data analysis and the substantive theory generation will also be discussed.

4.1.Choice of Methodology

4.1.1. Relevance and Validity of a Qualitative Methodology

I chose to use a qualitative approach to conduct this research, which is considered more appropriate for exploratory studies that seek to describe new phenomena than the use of a quantitative method (Denzin & Lincoln, 2000).

In the framework of this research, which sought to understand asymmetrical business relationships and the impact of their complex relational components on overall business exchange, a qualitative approach seemed to be the ideal choice to produce the most relevant results. In social sciences, qualitative research methods are based on the subjectivist view, which posits that reality is a socially-constructed phenomenon on which various interpretations can be built, whereas quantitative research methods derive from the objectivist view that reality is a concrete, measurable structure that remains external to the researcher (Bandeira de Mello & Cunha, 2006; Morgan & Smircich, 1980). Moreover, it has been said that the use of qualitative research is more appropriate to generate richer descriptions of social phenomena by enhancing the insights drawn from a limited selection of cases rather than focusing on results drawn randomly from a numerically important sample (Denzin & Lincoln, 2000). Creswell (2007, p. 40) adds that “we conduct qualitative research because we want to understand the contexts or settings in which participants in a study address a problem or issue”. Because this research sought to assess how two business partners perceived and understood abstract and qualitative relationship components such as trust, commitment, power and perception of fairness, it was essential to design a methodology that would give the researcher the ability to discuss with participants and interpret perceptions, context, discursive practices, attitudes and behaviors. This would not have been permitted in the case of the use of a quantitative, experimental and deductive approach, which by nature seeks to transcend personal interpretation in order to discover an absolute "truth" (Denzin & Lincoln, 2000).

The validity of this methodological choice in the field of supply chain studies is strengthened by a trend in SCM research for more qualitative theory building (Pilkington & Fitzgerald, 2006). While studies in SCM and Operations Management (OM) have generally tended to prioritize quantitative over qualitative approaches to strengthen the validity of their results, increasingly, authors have now called on research in SCM and OM to draw more theory from the use of qualitative research methods (Binder & Edwards, 2010; Coughlan & Coghlan, 2002; Hayes, 2000): "OM would benefit from theories that help to explain current phenomena and the relationships between their relevant building blocks. This calls for the application of qualitative research methods to develop models and theories rather than to test them" (Binder & Edwards, 2010, p. 233).

Furthermore, researchers and business practitioners in the field of OM have encouraged the more frequent use of GT methodology to explain phenomena in inter-firm relationships from a qualitative point of view (Binder & Edwards, 2010), which was the design used for this research.

4.1.2. Grounded Theory

I chose to base this research on a GT methodology design, which is an interpretative approach positioned in the middle of the spectrum between objectivist experimentation and subjectivist phenomenology (Bandeira de Mello & Cunha, 2006; Creswell, 1998). This sub-section will go over the concepts and approaches pertaining to GT and justify the relevance of this methodology to the topic of the research.

4.1.2.1. Definition and Evolution of GT

The term "Grounded Theory" was coined by Barney Glaser and Anselm Strauss in *The discovery of grounded theory* (1967) in which they introduced a new approach to qualitative theory development which contrasted with the predominant positivistic paradigm of the time. GT was introduced as an inductive methodology where the researcher is empowered in his/her interpretative role and where data is no longer used to test theory but rather to develop it (Rennie, 1998). According to Charmaz (2000, p. 509), "Grounded theory methods consist of systematic inductive guidelines for collecting and analyzing data to build middle range theoretical frameworks that explain the collected data".

With later developments of GT, Glaser and Strauss diverged in their positions on the analytical approach that should be used by the researcher. Whereas Glaser advocates for a purely inductive approach in which the researcher enters the field with no specific research question or theoretical concepts, other authors such as Strauss and Corbin (1994, 1998) justify the use of both inductive and deductive analyses to strengthen the emerging theory. Ensuing developers of GT have also advocated similar positions by merging GT with a social constructionist approach (Charmaz, 1990; Henwood & Pidgeon, 1992). While for Glaser, the researcher should enter the field free of *a priori* theoretical conceptions and with an open mind in order to capture a set of "social or psychological relationships [that] exist objectively in the world" (Pidgeon & Henwood, 1997, p. 254), Strauss and Corbin (1990) offer a more flexible version of GT where the researcher can pre-define the main issues and be familiarized with the existing theories on the topic before entering the field. This dichotomy between the current developments of GT and its original Glaserian version was relevant for the methodological design of this research, which clearly positioned itself along the lines of Strauss and Corbin's version of GT methodology – which I will develop further in **section 4.2** of this chapter.

4.1.2.2. Relevance of grounded theory for this subject

The choice to adopt a GT methodology for this research was justified by the exploratory nature of the topic: inclusive business models that encourage MNCs to source from smallholder agriculture in developing countries are a relatively new subject in the field of business studies and among academic publications. There remains particularly little theoretically-grounded knowledge on the relational aspects and managerial challenges linked to the MNC-smallholder business relationship, and field research bringing qualitative data from smallholders working with these MNCs in these types of partnerships still remains very sporadic. Moreover, most of the research is to this day substantially one-sided and focuses on the point of view of the MNC rather than on both partners of the B-S relationship. Several authors have indicated GT as an appropriate methodology when a topic is not well covered by existing theories and literature (Corbin & Strauss, 2008) and where researchers can potentially “discover theory from data” (Glaser & Strauss, 1967).

Moreover, GT allows the researcher to collect data from many sources (both primary and secondary) and to take into consideration many different variables at the same time (Corbin & Strauss, 2008). Hence, a GT approach enabled me to generate theory based on insights and data collected from a variety of stakeholders and fields, through different forms (interviewing, observation, reviewing of published material) and in a way that would not have been possible had I chosen to base myself on a more restrictive and quantitative methodology.

4.2.Developing a Subject and a Research Question

In accordance with Strauss and Corbin’s (1990) approach, I began the research with a broad topic – inclusive business initiatives by MNCs sourcing from smallholder producers in Brazil – that I chose based on my personal interests and prior professional experience, and that I continuously narrowed as I progressed in the field research.

The question of reviewing the existing literature on the chosen topic is a debatable one among GT practitioners. On the one hand, Glaser’s (1992) view is that the use of conceptual frameworks and deductive analysis “forces” set idea onto the data which “is not allowed to speak for itself” (p. 123). On the other hand, certain authors recommend integrating literature only when the research is already under way and when insights from the field make resorting to theory necessary or relevant, so as to avoid being biased with theoretical considerations from the start (Charmaz, 1990). However, while bearing in mind that the purpose of GT is to enter the field with little conceptual structures in order to discover explanations to “unanswered questions” (Ertmer, 1997, p. 163), most texts today recognize that no researcher can truly realize this ideal of undertaking a research with no prior knowledge (Pidgeon & Henwood, 1997; Pidgeon, Turner & Blockley, 1991; Strauss & Corbin, 2008; Suddaby, 2006). It appears that what matters is for the researcher to find the right balance between resorting to existing knowledge and relying on inductive analysis of the data collected from the field, or possessing conceptual awareness without being systematically bound to it (Charmaz, 1990). As Goulding also puts it (2001, p. 23), “grounded theory research is not a-theoretical, but it does call for an open mind and a willingness to have faith in the data”.

This iterative process where the data interacts with concepts is justly and metaphorically described by Pidgeon and Henwood (1997, p. 255) as a "'flip-flop' between ideas and research experience".

In the case of this research, while the subject was chosen with little core assumptions, reviewing literature and selecting a theoretical framework quickly became relevant when I decided to focus on the relational aspects of the B-S relationship between companies and smallholder producers in Brazil. That is, when I decided to look at abstract notions pertaining to these relationships – which I perceived early on as asymmetrical –, such as trust, commitment, fairness and the use of power, it did not make sense to reinvent concepts that had already been discussed by authors in the fields of relationship marketing and organizational justice. In this sense, my literature review sought to link the concepts that I identified on the field with existing theories in a way that was relevant and transferable to the context I was studying.

As in most researches that use GT, my research question evolved over the course of the study as the relevant issues became clearer and as the focus of the study narrowed. In the initial stages of the research, I engaged in informal discussions with experts and researchers who themselves had knowledge of the topic, both internationally and in the Brazilian context. In many cases I asked these participants what "inclusive business" meant for a company working with smallholder producers, to which it seemed there was no clear answer. One participant replied, "These companies have been working with small producers for 25 years or more, but it doesn't mean they are doing anything really innovative", which pushed me to investigate further on whether I was dealing with "inclusive business relationships" or relationships that worked as "business as usual". Another theme that emerged from these first interviews was the lack of trust and insecurity in business relationships involving MNCs and smallholders because of fundamental gaps between the two partners in terms of resources, size and cultures. I began a first phase of *initial coding* based on a number of recurring issues that appeared in common in these discussions, notably orienting the research question around the relational aspects of these B-S relationships. Having identified that I was dealing with relationships between asymmetrical partners where use of power, lack of trust, inter-organizational differences and dependence of the smallholder were important considerations, I focused my attention on exploring these themes more in depth for the next stages of the research through interviews and the review of existing literature.

4.3.Data collection

4.3.1. Sources of data collection

Grounded theory authorizes the use of multiple sources of data, although interviewing is generally viewed as the most important source for data collection (Addison, 1989). Because it stems from symbolic interactionism (Wilson & Hutchinson, 1991) and was later built on a social constructionist perspective (Charmaz, 1990), GT as an interpretive research methodology is primarily concerned with making explicit the way in which participants perceive, experience, account for and make sense of their environment, or "their own perspective on their lived world" (Kvale, 1996, p.105). Consequently, because this research sought to understand how stakeholders of the B-S relationship perceived and assessed the importance of relational components such as trust, commitment and use of power, its principal findings essentially but not exclusively came from data collected through interviewing. Overall, three sources for collecting data were used: interviews, participant observation and secondary data. The use of multiple sources allowed for a stronger validation and comparison of the categories identified.

4.3.1.1.Interviews

In-depth interviews were conducted with managers and operational staff members of both MNCs and local buyers, as well as with smallholder farmers between February and September 2013. Each interview lasted on average one hour. Aside from one external informant interview (Ext1), all of the interviews were conducted in Portuguese, transcribed and then translated to English for the purpose of using quotations. The format for interviews was a semi-structured questionnaire. Interviews focused on both thematic and dynamic questions, as recommended by Kvale (1996) to enable the interview to focus on the important concepts of the research (thematic), all the while promoting constructive and spontaneous interaction between the researcher and the interview participant (dynamic). These questions aimed at understanding the interviewee's perception and experience of the B-S relationship and obtaining descriptions of the business practices used in the relationship. I avoided using in the questions the key terms of the research – namely, trust, commitment and power – unless these terms were explicitly mentioned by the interviewee, in order to avoid biasing the participants with pre-conceived ideas, and instead focused on broad, open-ended questions which “give respondents more room to explain what is important to them”, as suggested by Corbin & Strauss (2008, p. 153). **Appendix 1 through 3** present the interview questionnaires for MNC managers, field supervisors and smallholders.

4.3.1.2. Participant Observation

Field observations were also an important component in the data collection process, as they enabled the researcher to take note of attitudes, behaviors and interpersonal interactions in the B-S relationship that would not have become apparent through interviewing alone. I undertook five field trips to three different regions in Brazil: the states of São Paulo (SP), Minas Gerais (MG) and Rio Grande do Sul (RS). During these field trips, I was not only able to observe the conditions in which these relationships operated but also the day-to-day “routines” and “strategies” involving the buyer and the supplier.

These field trips were generally organized jointly with, and accompanied by a company’s local field representative. Each trip lasted between one and three days and aimed first and foremost at speaking with smallholder producers and observing the operational aspects of the B-S relationship. Observations on the field consisted in participating in meetings between companies and producer cooperatives, accompanying agronomists on their routine visits to farm sites, taking part in producer events (organized by cooperatives or farmer extension services facilities) and visiting collection sites, MNC factories and cooperatives. **Table 4.1** below details the field trips undertaken.

Date	Location (State)	Duration	Chain	Accompanied by	Interviews Yielded
19/04/2013	SP	1 day	Horticulture	MNC	1 MNC field supervisor 3 smallholder producers
10/06/2013-12/06/2013	MG	3 days	Dairy	Federal University and Farmer Extension Services	1 external informant 1 local field supervisor 5 smallholder producers
18/06/2013-20/06/2013	RS	3 days	Swine/Poultry	Local Municipality	1 external informant 2 local buyer managers 4 smallholder producers
06/08/2013-07/08/2013	MG	2 days	Dairy	MNC	1 MNC field supervisor 3 smallholder producers
20/08/2013	SP	1 day	Horticulture	MNC	1 MNC field supervisor 3 smallholder producers

Table 4.1. Details of Field Trips

4.3.1.3. Secondary data

While it is less frequent for GT to use secondary data for data collection and analysis because it is less compatible with the design of the research methodology, it is neither a general rule that the researcher must only work with data that he/she has collected him/herself. In the case of this research, secondary data was an important part of the data collection process in order to verify concepts that emerged through interviews and observations. This included reading company material (CSR reports, supplier quality guidelines, corporate statements, etc.), published articles (press, academic journals), statistical reports, international NGO reports retrieved online and other documents that shed light on the concepts identified through primary sources of data.

4.3.2. Sample

The sample population to be studied was comprised essentially of company executives and smallholder producers (the two parties of the B-S relationship). Other key external informants outside of these two principal stakeholders (government institutions, capacity-building service providers, producer cooperatives, consultants, academics, etc.) were occasionally and gradually incorporated in the sample according to the needs of the research and through the use of a snowball sampling method, where existing interview participants suggested future potential interview participants from their acquaintances upon the researcher’s request. This generally yielded additional interviews with other staff members within the same company and opened possibilities for field visits to talk with agronomists, smallholder producers and project partners. This snowball technique has advantages in so far as it favors inductive analysis in the framework of GT building (Miles & Huberman, 1994). In all, 33 in-depth interviews were conducted with a variety of stakeholders involved in the studied relationship: 11 with managers from 6 buyers (3 MNCs and 3 local buyers), 18 with smallholder farmers and 4 with external informants. **Table 4.2** details the sample participants.

In this research, I chose to maintain the anonymity of the interviewed companies and used pseudonyms instead to refer to sample participants using the following rationale:

- BM = Buyer-MNC
- BL = Buyer-local
- P = Producer

- Ext = External Informant
- Numbers 1, 2, 3, 4, etc. and letters a, b, c, etc. differentiate the interview participants from one another

	Type	Sector	Details of Interview Participants	Pseudonym
1	Buyer-MNC	Dairy, Vegetables	1 Corporate Responsibility Manager	BM1a
2			1 Supply Chain Manager	BM1b
3			1 Field Supervisor (SP)	BM1c
4			1 Field Supervisor (MG)	BM1d
5	Buyer-MNC	Poultry/Swine	1 CSR Director	BM2
6			1 Supply Chain Sustainability Manager	
7	Buyer-MNC	Vegetables	1 Corporate Responsibility Manager	BM3a
8			1 Field Supervisor (SP)	BM3b
9	Buyer-Local	Dairy	1 Field Supervisor	BL1
10	Buyer-Local	Poultry	1 Director-CEO	BL2
11	Buyer-Local	Dairy	1 Director-CEO	BL3
12	Producer	Vegetables	Supplier of BM1 (SP)	P1
13	Producer	Vegetables	Supplier of BM1 (SP)	P2
14	Producer	Vegetables	Supplier of BM1 (SP)	P3
15	Producer	Vegetables	Supplier of BM3 (SP)	P4
16	Producer	Vegetables	Supplier of BM3 (SP)	P5
17	Producer	Vegetables	Supplier of BM3 (SP)	P6
18	Producer	Dairy	Supplier of BM1 (MG)	P7
19	Producer	Dairy	Supplier of BM1 (MG)	P8
20	Producer	Dairy	Supplier of BM1 (MG)	P9
21	Producer	Dairy	Supplier of BL1 (MG)	P10
22	Producer	Dairy	Supplier of BL1 (MG)	P11
23	Producer	Dairy	Supplier of a non-interviewed local buyer (MG)	P12
24	Producer	Dairy	Supplier of a non-interviewed local buyer (MG)	P13
25	Producer	Dairy	Supplier of a non-interviewed local buyer (MG)	P14
26	Producer	Poultry/Swine	Supplier of a non-interviewed MNC (RS)	P15
27	Producer	Poultry/Swine	Supplier of a non-interviewed MNC (RS)	P16
28	Producer	Poultry/Swine	Supplier of BL2 (RS)	P17
29	Producer	Poultry/Swine	Supplier of BL2 (RS)	P18
30	External Informant	All	Consultant (Germany)	Ext1
31	External Informant	All	Consultant (Brazil)	Ext2
32	External Informant	All	Agronomist - Federal Farmer Extension Services Program	Ext3
33	External Informant	All	Agronomist - Public Institution	Ext4

Table 4.2: List of Interview Participants

Interviews with staff from agribusiness companies included participants from the areas of corporate sustainability, supply chain management, sourcing and agronomy. In the exploratory phase of the research, before entering the field, I identified companies that could be of potential interest for the research, based on multiple case-study reports published by international organizations and consultancies such as Endeva (2012), GAIN (2012) and the World Economic Forum (2009, 2012) which cited company examples of inclusive business initiatives targeting smallholder production. I selected a dozen companies that had programs set up in Brazil and contacted them, briefly explaining my research and requesting an interview with the staff member(s) that managed these programs. This approach only yielded interviews with two MNCs. In parallel, because of the importance of being "introduced" by personal acquaintances from the same network, I was able to obtain interviews with four other buyers, including one MNC and three local Brazilian buyers.

Identifying smallholder producers for the sample only came in subsequent stages, once I had already begun the research and had started collecting data. Initially, I set out to engage in discussions with companies that would open doors for me to talk to a sample of their smallholder producers in a given location. I realized that this process was not only very long in terms of time spent waiting for companies to respond to these requests for field visits, but that it was also not providing me with the highest quality information since companies tended to be wary of having a researcher speaking with their smallholder suppliers, and generally introduced me to their "best cases". Moreover, it became apparent that in order to have more direct and personal discussions with farmers without the presence of a company staff member in the interview, I had to try to access farmers through other channels. This is how one of my field trips was undertaken directly via contact with a city council that I accessed through information provided by a research center at FGV, the CEAPG (*Centro de Estudos em Administração Publica e Governo*), which had conducted research with smallholder producers in the state of Rio Grande do Sul. Alternative channels to access smallholder producer stories on their relationships with MNCs included contacting an extension program coordinated by a Federal Brazilian University in the state of Minas Gerais (MG) that trained smallholder milk producers in the region, interacting with farmers who had previous experiences working with MNCs through farmers' markets in São Paulo and talking with researchers who had also studied the subject of family-based agriculture in Brazil.

Defining selection criteria for the smallholder producer that entered into the sample was more complex because of the variety of aspects and criteria that pertain to the definition of smallholder producers, both formally and informally, as discussed in **Chapter 2, section 2.2**. Moreover, because access to the smallholder producer was generally subsequent to engaging in talks with the company, it made it all the more difficult to have an *a priori* definition of the smallholder in our sample. In this case, theoretical sampling was particularly useful. This kind of sampling is concept driven. As described by Corbin and Strauss (2008, p. 144), "what makes theoretical sampling different from conventional methods of sampling is that it is responsive to the data rather than established before the research begins", enabling the researcher to adapt the criteria for sampling all along the research process. Theoretical sampling is especially characterized by the fact that it is a constant interaction between data collection and analysis, since analysis in GT methodology starts after the first interview has been conducted, and generates concepts and questions about the data which give direction to the next round of data collection.

Finally, the external informants in the sample were selected for their expertise, knowledge or experience on the topic. Two external informants were consultants specialized on inclusive business models in emerging countries, with a strong focus on smallholder inclusion in value chains. The other two external informants were interviewed during field trips and were agronomists that worked with the interviewed smallholders through farmer extension services. They brought relevant points to the analysis through their experience in mediating relationships between smallholders and agrifoods buyers.

4.4.Data Analysis

In GT, data analysis starts with the first moment of data collection and is an ongoing process through which the researcher "zig-zags" between data collection and theory development (Creswell, 2007). This constant flow begins with data collection, from which categories and concepts are generated through analysis, sparking the researcher to ask questions and go back to the field to collect more data in search for similarities and differences between the new set of data and the previously identified concepts (Corbin & Strauss, 2008). The researcher continues to go back to the field until he/she assumes that categories have been "saturated" and that no new data brings light to the research topic. As Goulding (1998, p. 52) puts it: "Grounded theory has a built-in mandate to strive towards verification through the process of category “saturation” which is achieved by staying in the field until no further evidence emerges”.

In the analysis of the data, the researcher’s interpretation and creativity is of primary importance to give meaning to the data. In this process, it is important to bear in mind that the objective of qualitative research and interpretation is not to be an “exact science” but rather to “convey meaning” (Corbin & Strauss, 2008). Throughout this research, data analysis was conducted with the use of the essential “analytical tools” of GT, described by Corbin and Strauss (2008, p. 85) as “heuristic devices that promote interaction between the analyst and the data, and that assist the analyst to understand possible meaning”. These analytical tools enable the researcher to break with standard forms of thinking, stimulate the inductive process and facilitate the free flow of ideas. They consist in continuous questioning, coding and constant comparison.

4.4.1. Continuous questioning

Asking questions is a way for the researcher to start thinking about the data, question the meaning of what is said in the data and deepen the analysis, especially when the flow of new ideas is at a standstill or when the researcher does not know where to start the analysis. According to Corbin and Strauss (2008), there are four types of questions that the researcher can ask when confronting the data:

- <u>Sensitizing questions</u> look for hints on what the data is indicating. Typically in this research, questions such as “what is going on here?” and “what is important for this person?” were recurrent sensitizing questions to probe the data both from interviews and observations.
- <u>Theoretical questions</u> are useful to interconnect concepts: for example, “What if” questions were particularly useful in the framework of this research: “what if the company stopped buying from the producer?”, “what if the producer did not comply with the buyer’s requirements?” or “what if a better opportunity came along?”
- <u>Practical questions</u> provide direction for theoretical sampling and theory development. These questions included “where are the gaps?”, “what have companies not explained to me yet?”, “what doesn’t seem to make sense in my

theory development?", "who should I talk to in order to understand this better?", etc.

- Guiding questions are meant to be used to guide interviews, observations and to gather data in general. In the framework of this research, guiding questions aimed at understanding how the B-S relationship between companies and smallholders worked and are presented in the interview guides in **Appendix 1, 2 and 3**.

4.4.2. Coding

Coding is the process of "taking raw data and raising it to a conceptual level" (Corbin & Strauss, 2008, p. 66). It is the analytical step through which theory is generated from, and grounded in, the data, and is achieved by breaking down data and categorizing it into distinct units of meanings. By labeling data, the researcher is able to generate concepts which will guide future data collection (theoretical sampling), identify properties and dimensions within these concepts, and create relationships between concepts according to the "paradigm model", also known as the "conditional matrix", (Strauss & Corbin, 1990). This is done through a thorough "line by line" analysis of the data collected (Charmaz, 1990; Goulding, 2001). The researcher's ability to categorize the data into higher-level concepts and perceive interrelationships between those concepts is referred to as "theoretical sensitivity" (Glaser, 1978; Strauss & Corbin, 1990) and should enable the researcher to develop innovative theories (Pozzebon, Petrini, Bandeira de Mello, & Garreau, 2011).

There are several levels of coding, as identified by Strauss and Corbin (1990). Coding the data from this research was carried out with the use of a qualitative analysis software called Atlas TI.

- *Open coding* is the action through which the researcher labels phenomena into categories and their relevant properties and dimensions. In this research, open coding was done through a careful examination of the data to look for key words and expressions that shed light on the behaviors under study. The data was classified into distinct units of meaning, compared for similarities and differences and questions were asked on the phenomena that it represented. The codes that were created through open coding are presented in **Appendix 4**.

- *Axial coding* is concerned with making connections between categories and reassembling the data in a new way. The categories that resulted from axial coding are presented in **Appendix 5**.
- *Selective coding* is the ultimate phase of analysis, when a core category seems to emerge above the others to explain the behaviors under study. The researcher thus attempts to link everything to this central phenomenon and selectively codes the data with this core category in mind, searches for new data that can bring further information on this key variable, and can also go back to earlier coded data to look for relevance with this new central theme.

4.4.3. Constant Comparison

Another central process in GT analysis is the method referred to as constant comparison (Corbin & Strauss, 2008). According to Scott (2004, p. 114), "constantly comparing categories helps the investigator understand the construction of their interrelationships".

The idea of constantly comparing pieces of data together is for the researcher to classify phenomena according to their similarities and differences, identify recurrences in incidents and eventually reach higher-level categories that can explain them. There are two types of constant comparisons: theoretical comparisons and incident-incident comparisons (Corbin & Strauss, 2008; Pozzebon et al., 2011). Theoretical comparisons are meant to "stimulate thinking about properties and dimensions of categories" (Corbin & Strauss, 2008, p. 65) especially in moments when the researcher is at a loss on how to label an incident and needs further information. In that case, reaching into theoretical concepts to look for similarities with the concepts the researcher is dealing with can be a helpful aid. Incident-incident comparisons are "the analytic process of comparing different pieces of data for similarities or differences" to group concepts and categories together (Corbin & Strauss, 2008, p. 65). Pozzebon et al. (2011) describe theoretical comparisons as the movement from the empirical domain (the data) to the abstraction level (theory), whereas incident-incident comparisons are a movement from the level of abstraction (concepts identified through coding) to the empirical material (incidents in the data).

4.5.Developing a Substantive Theory

The theory developed comprises the four essential elements of Who, What, Why and How (Whetten, 1989) in the sense that it identifies:

- Who are the main players in the occurrence of the central phenomenon?
- What is the central phenomenon that was studied?
- Why does this central phenomenon occur?
- How do these players act, interact and react around this central phenomenon?

Moreover, according to Glaser (1978), a grounded theory must present the four following features:

- Fit: A grounded theory must reflect the everyday realities of a substantive area and be induced from data.
- Relevance: A grounded theory is relevant in so far as it allows core problems and processes to emerge out of data.
- Work: A theory works if it is able to explain what happened, predict what will happen, and interpret what is happening in an area of inquiry.
- Readily modifiable: The theory generation is an ever changing process and a substantive theory can be enhanced by the development of other substantive theories.

The nature of the theory developed is substantive (contrary to formal), because it seeks to explain a phenomenon, but not an absolute, generic truth. It is based on the views expressed by the participants and the realities observed, enriched by secondary data and the researcher's interpretative role. A substantive theory is a type of theory developed for a specific area of inquiry and close to a real-world situation, as opposed to a formal theory which is more conceptually abstract and results from the aggregations and improvement of several substantive theories (Glaser & Strauss, 1967).

According to Creswell (1998, p. 67), a fourth and final step of the analytical process takes place when the researcher attempts to "visually portray a conditional matrix that elucidates the social, historical, and economic conditions influencing the central phenomenon". The use of the conditional matrix, also referred to by GT practitioners as the “paradigm model” (Strauss & Corbin, 1990), is to offer a coherent, integrated and explanatory description of the phenomenon under consideration and helps to develop a theoretical model surrounding the central phenomenon. The “paradigm model” focuses on:

- A central phenomenon
- The set of conditions from which it arises
- The context in which it is embedded, such as the set of properties that pertain to it
- The action/interaction strategies used by the actors within this phenomenon
- The consequences generated by these strategies

The objective of the paradigm model is to be used as a tool for the researcher to “develop a story line” (Strauss & Corbin, 1990): in other words, the idea is to tell a story or to construct a descriptive narrative of the investigated phenomenon by relating it to the conditions, context, strategies and consequences that surround it.

Corbin & Strauss (2008) underline the flexible nature of the paradigm model as a tool to guide the researcher towards theory development rather than a rigid framework into which categories should be forced at all costs: “An important point to remember is that the paradigm is only a tool and not a set of directives” (p. 90). They go on to say: “The Matrix is meant only to be a conceptual guide and not a definitive procedure. The Matrix can be modified to fit each study and data. […] Researchers using the Matrix have altered the classification scheme to suit their own purposes or, based on their critiques, developed alternative approaches” (p. 93). Different researchers have constructed their own representation of how to use the paradigm model.

For the purposes of this research, the paradigm model was used to understand the existing relationships between the identified categories, however it was not adopted as a prescriptive and linear rule according to which conditions would precede a specific context in which the phenomenon would occur and which in turn would give rise to a set of strategies resulting in consequences. While I discovered throughout the analysis that my central categories were governed by a clear form of hierarchy where certain categories explained others in a flow of causes to consequences, I also found that there were a multitude of interactions between categories pertaining to conditions, context, strategies, consequences and the central phenomenon, each one shaping and impacting the other.

Figure 4.1 below represents my own use of the paradigm model for the development of the substantive theory presented in Chapter 7. The horizontal arrow shows that the categories respected a form of linearity: A certain set of conditions gave rise to the central phenomenon, which accounted for the existence of action and interaction strategies on the part of the stakeholders. However, the overlapping circles illustrate that certain categories pertaining to these components of the paradigm model also interact with each other in a non-linear and non-hierarchical way. For example the interaction of the existing conditions and the actors' strategies had an impact on the context, in the sense that it could change or reinforce the elements of context.

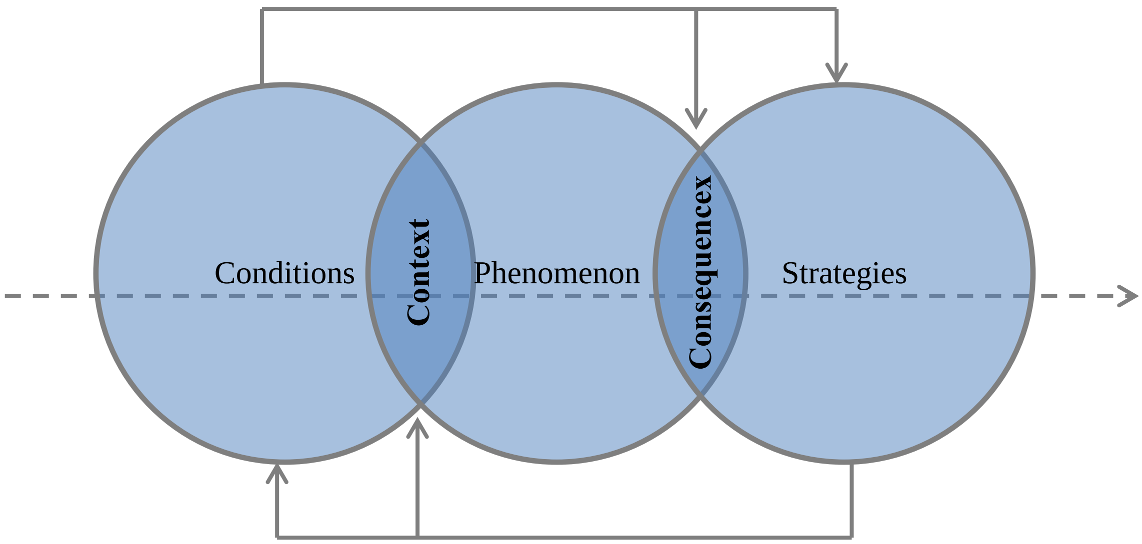


Figure 4.1. The Paradigm Model of Grounded Theory and its Use in this Research
Source: Author

5. OVERVIEW OF BRAZIL'S AGRIBUSINESS SECTOR AND FAMILY AGRICULTURE

This chapter begins with an overview of Brazil's agribusiness sector, followed by an explanation of how agricultural policies have evolved and shaped the country's agro-industry. The third part presents Brazil's family agriculture class, then 8 examples of private sector-led inclusive business initiatives targeting family agriculture in Brazil are discussed. Brazil constitutes a mature environment for the development of inclusive business, as shown by the high level of involvement of Brazilian companies in social issues (Instituto Ethos, 2009). While inclusive business remains a rarely used expression in Brazil, a study by Teodósio and Comini (2012) shows that Brazilian companies provide a hospitable environment for the principles of inclusive business.

5.1.The Agribusiness Sector in Brazil

In Brazil, agribusiness represents one of the country's strongest growth opportunities, accounting for 27% of Gross Domestic Product (GDP) and a third of national employment. It also accounts for 37% of exports and is the main responsible sector for the country's trade surplus. Indeed, since 2007, Brazil is the world's largest exporter of red meat, poultry, sugar, coffee and orange juice and the second largest exporter of soy and soy oil. **Table 5-1** highlights some important figures.

	Production (million tons)	Export (million tons)	Export value (billion USD)	Participation in world production	Country ranking in export
Soy complex	71,8	33	24,1	29%	2
Sugar	36,9	25,4	16,4	27%	1
Ethanol (billion liters)	22,9	3,6		27%	2
Corn	59,2	9,5	2,6	7%	4
Beef	9,2	0,8	16,6	16%	2
Poultry	13,6	3,6		16%	1
Pork	3,3	0,4		3%	4
Coffee (million bags of 60kg)	43,5	29,9	8,7	37%	1
Orange Juice	1,4	2	2,4	62%	1

Table 5-1. Brazil's Agricultural Exports (2011)

Source: PwC, Agrostat Brasil from MDIC/SEDEX data

The domestic market for food products, the third largest among developing countries after China and India, is also an important driver of agricultural growth (Wilkinson, 2009). Moreover, according to Chaddad and Jank (2006), trade liberalization and modernization of agriculture in the 1980s led multinational food processors and retailers to increasingly enter or invest in the Brazilian food market, crowding out small and medium local companies. As a result today, many multinational food firms that entered Brazil in the 1980s and 1990s dominate production targeting middle and high class consumption and export markets, while national companies and regional cooperatives tend to supply local, lower-income segments (Wilkinson, 2009; Tenório, 2011).

In the Brazilian context, two models for agriculture co-exist. The combination of a variety of factors including the high concentration of land ownership, the legalization of the use of GMO seeds for agricultural production, the agricultural sector's shift from traditional agriculture to industrialized agriculture based on science and technology, the prioritization of high-volume export crops such as soy, coffee, grains and corn, and the blockage of discussions on Brazil's highly needed land reform (expropriation of under-used properties for family farming) has benefitted large agribusiness over family farms since the 1970s (Chaddad & Jank, 2006).

5.2.Evolution of Agricultural Policies since the 1970s

Before the 1970s, agriculture in Brazil had little competitiveness and was mainly inward-oriented through a classic import-substitution strategy – which characterized most developing countries at the time – to ensure supply and food security of the domestic market (Thomas, 2006). A shift was marked during that period with public investments targeting research in agriculture and the introduction of new technologies which allowed for significant productivity gains and expansion of agricultural production in new regions, especially the *Cerrado* in the Centre-West (Chaddad & Jank, 2006; Thomas, 2006). The average annual growth of total factor productivity in agriculture was estimated at 3.3% between 1975 and 2002 and 5.7% between 1998 and 2002, compared to 1.8% in the United States during the period between 1948 and 2002 (Gasques, Bastos, Bacchi & Conceição, 2004). Because of progressive trade liberalization and the government's prioritization of export commodities and tropical agriculture (sugar, coffee), agricultural production in Brazil became increasingly capital intensive, with tightly coordinated supply chains and stronger exposure of domestic farmers to international competition and regulations (especially regarding food safety and quality requirements). Similarly, commercial agriculture began to overtake certain sectors that used to be, traditionally, dominated by small-scale operations such as dairy and poultry (Chaddad & Jank, 2006).

In the 1990s, under the Fernando Henrique Cardoso administration – and further on with the Lula Presidency in the 2000s – the priority of agricultural policy became family farming and land reform. Chaddad and Jank (2006, p. 90) illustrate the Brazilian government's swinging policy priorities between "patronal" and "family" agriculture: "In retrospect, farm policies in Brazil have evolved in the last three decades from a food security and self-sufficiency emphasis before 1985, to deregulation and openness to trade between 1985 and 1995 and, since then, in a reactionary bent focused on the small family farm and land reform".

Historically, the distribution of land in the country was unjust and property was concentrated in the hands of the few, leaving a large number of small farmers without farm property or "landless" – a term made famous by pressures from the Landless Workers Movement (MST) in the 1990s. Land reform consisted in settling family farms on expropriated unused or under-productive lands: this measure concerned 500,000 families under the Cardoso Presidency, a number which has since then decreased with each new administration because of the reform's highly debated nature in the country (Chaddad & Jank, 2006). In addition to these measures, the Fernando Henrique Cardoso administration set forth a number of programs targeting family agriculture and addressing the issue of inserting small farmers into markets.

Brazilian agriculture is characterized by its profoundly dual nature between an industrialized and export-oriented agriculture on the one hand ("agribusiness"), and small, family agriculture on the other (Chaddad & Jank, 2006; Oxfam, 2012). The former is dominated by large, commercial farms and economies of scale for products such as soy, coffee, sugar and grains, while the latter consists of small plots dispersed in all regions that rely primarily on family labor and represent a pillar of Brazil's food security. As a result, Brazil's agricultural policy are also, by nature, characterized by the same duality with on the one hand, public investments supporting the technological development of a competitive agribusiness industry in foreign markets, and on the other hand a series of government programs backing family agriculture through subsidized credit lines and public procurement schemes. Another noteworthy aspect is that Brazil has, since 2000, two ministries dedicated to agricultural policies: one Ministry of Agriculture, dedicated to the first type of the agricultural duo, and one Ministry of Agrarian Development, dedicated to policies specifically tailored to the needs of family farms. Consequently, the two groups – agribusiness and family agriculture – are constantly competing against one another for government programs and budget. This divide between the two types of agriculture reflects the embedded perception that the development of agribusiness in Brazil necessarily leads to the exclusion of small farmers, (Chaddad & Jank, 2006).

5.3.Smallholder Agriculture in Brazil: the Agricultura Familiar

According to the latest national Agricultural Census (2006) carried out by the IBGE, there are 4.3 million family farms in Brazil representing 84% of the total number of farming establishments but only 24% of farmland hectares. Brazilian family farms are on average 18 hectares in size, a relatively small size when compared with the average size of 309 hectares of non-family farms (IBGE, 2006). Nevertheless, the role of smallholders in guaranteeing safe supply for the domestic market and ensuring the country's food security is indisputable (IBGE, 2006; Chmielewska and Souza, 2009; Tenório, 2011; Oxfam, 2012). In particular, family farms produce 87% of manioc, 70% of beans, 46% of corn, and 38% of coffee and raise 59% and 50% of pork and poultry meat respectively (IBGE, 2006).

Two thirds of these family farms in Brazil can be classified as "subsistence" farming, which is a type of agriculture that is essentially focused on producing to provide for the household's consumption and where income derived from farming is often insufficient, leading farmers to look for alternative paid work outside or within the agricultural sector (Soto Baquero, Fazzone, & Facconi, 2007). In fact, the average revenue declared by family farms in 2006 was 13,600 Reais per year (6,239 US Dollars[3]), however about one third of establishments also declared having other sources of revenue, mainly from government transfers or other activities (IBGE, 2006).

For over a decade, the Brazilian government has set forth a number of programs to address the issue of the market insertion of family agriculture. The Food Acquisition Program (PAA) and the National School Feeding Program (PNAE) are two examples of

[3] At a rate of 1 USD = 2,18 BRL (2006)

public procurement schemes to strengthen family farming by purchasing products from poor farmers to supply public feeding programs. Positive results of these programs include improved smallholder production and market capabilities, the strengthening of farmer organizations and higher farmer investments (Chmielewska and Souza, 2010). However, a series of studies from the International Policy Center for Inclusive Growth (IPC-IG) have observed that these policies do not automatically drive engagement with new commercial partners and that only 2.5% of family farms benefitted from them in 2006 (Chmielewska and Souza, 2010).

5.4. Private-Sector and Smallholder Engagement: Examples of Inclusive Business in Brazilian Agriculture

There are several examples of direct private-sector engagement of MNCs with smallholder producers in Brazil. When researching MNCs that could be of potential interest for this study based on international reports and publications on inclusive business, a dozen companies were identified with well-developed initiatives set up in Brazil.

The most well-researched cases are Natura’s Ekos line of cosmetics (Boechat and Mokrejs Paro, 2008; Carvalho, 2011), Sadia’s sustainable production practices with swine producers (Boechat, Werneck, and Miraglia, 2007) and the inclusion of smallholders in biofuel production chains. All three cases were studied by the United Nation’s system, namely the UN’s Growing Inclusive Markets Initiative and the IPC-IG. The other examples of private-sector engagement with Brazil’s *agricultura familiar,* which have not been studied more in depth but which are worth mentioning, are Bayer CropScience (BCS) and the *Mais Qualidade* Program, Walmart’s *Clube dos Produtores*, Nestlé’s milk districts in the dairy sector and Cargill’s work with smallholder cacao producers in Northern Brazil.

In the eight aforementioned examples, two models can be identified:

- On the one hand, companies that have been working with smallholder producers in their supply chain for many years or since their implementation in Brazil and that have a very for-profit oriented value chain design. This is for example the case of Nestlé and Sadia. Because of industry structure and production trends, these companies have always sourced from smallholder producers, have extensive expertise and systems in place to manage these relationships, have developed specific training programs for their suppliers to continuously improve quality and yields, but have little specifically designed policies to monitor the social impact of the value chain.

- On the other hand, companies that have only recently started to look to small-scale BoP producers as an important stakeholder in their business strategy and develop their value chain with an inclusive business lens, attempting to develop a financially and economically profitable activity with smallholder suppliers because of an identified opportunity, all the while trying to reach social objectives as well. This is the case of Natura, BSC, Walmart and Cargill for example. In many of these cases, the social objective often serves a CSR communication purpose and profitability still remains a priority over the social objective. In these examples, third-sector stakeholders are often involved, such as NGOs or local authorities and farmer extension services to help manage the relationship with the smallholder.

6. ANALYSIS OF RESULTS

6.1.Introduction

In this section, the results of the research inquiry on the factors that enable the two asymmetrical partners, namely large companies and smallholder producers to build long-term and mutually beneficial business relationships are presented. The data collected through interviews and observations during the field research was broken down and searched for meaning through the analytical process of open, axial and selective coding. Appendix 4 presents the 134 codes that resulted from the initial open coding and the 82 final codes that were used for axial coding. Axial coding, which involves linking these codes together in a way that makes explicit their relationships in a more conceptual way (through the use of the "paradigm model") generated six higher level categories which were the principal recurring themes in the data. The results presented in this section are thus organized in six sections, each one taking a descriptive approach and being based on the categories that resulted from the process of axial coding presented in **Appendix 5** and summarized in **Figure 6-1** below.

The first category, "Income", discusses the importance of creating income security for the smallholder through not only a fair price but also consistency of compensation procedures, transparent price policies and openness to negotiation.

Secondly, "Compliance" refers to the company's concern with ensuring compliance from the smallholder with company production standards. Without compliance security, MNCs do not trust the producer to be a reliable business partner.

The category "Interpersonal Relationships" concerns the importance for the company and the smallholder to foster close personal relationships. Here, we especially discuss the relationship between the company's supply chain supervisor and the smallholder and analyze the role played by emotions and perceptions in the continuity of the business relationship.

In the fourth section on "Power Dynamics", I discuss how the B-S relationship between MNCs and smallholders is inevitably asymmetrical. Because MNCs concentrate the majority of power resources, the smallholder is often symptomatically in a position of dependence. However, interviews showed that relying on the use of non-coercive rather than coercive forms of power generated beneficial outcomes in the B-S relationship.

The fifth category on “Inter-organizational Differences” analyzes how relationships between companies and smallholders do not fit within the framework of “business as usual” and that the two partners must overcome their differences in terms of business culture, value orientation and norms in order to develop a partnership spirit.

Finally, the category on “Partnership Orientation” explains how establishing a long-term vision of the relationship, adopting partnership values, setting up governance mechanisms and offering services outside of the only business exchange contribute to a sense of working as partners and help build commitment between the partners.

The results presented in this section are backed by the use of statements from the transcribed interviews. Because the purpose of this research was not to compare cases or to highlight “good” cases and “bad cases”, I chose to maintain the anonymity of the interviewed companies and use pseudonyms instead, the full list of which was presented in **Table 4-2 in Chapter 4.**

In statements where the name of a buyer, company or competitor is cited, the company’s name was either replaced by its pseudonyms if it was among the participating companies of the sample or by “the company” if it was outside the sample. The statements that are used were translated from their Portuguese version to English in a way that aimed to remain faithful as much as possible to the original statement. On certain occasions, a specific quotation may have been used twice if it was appropriate to illustrate more than one theme.

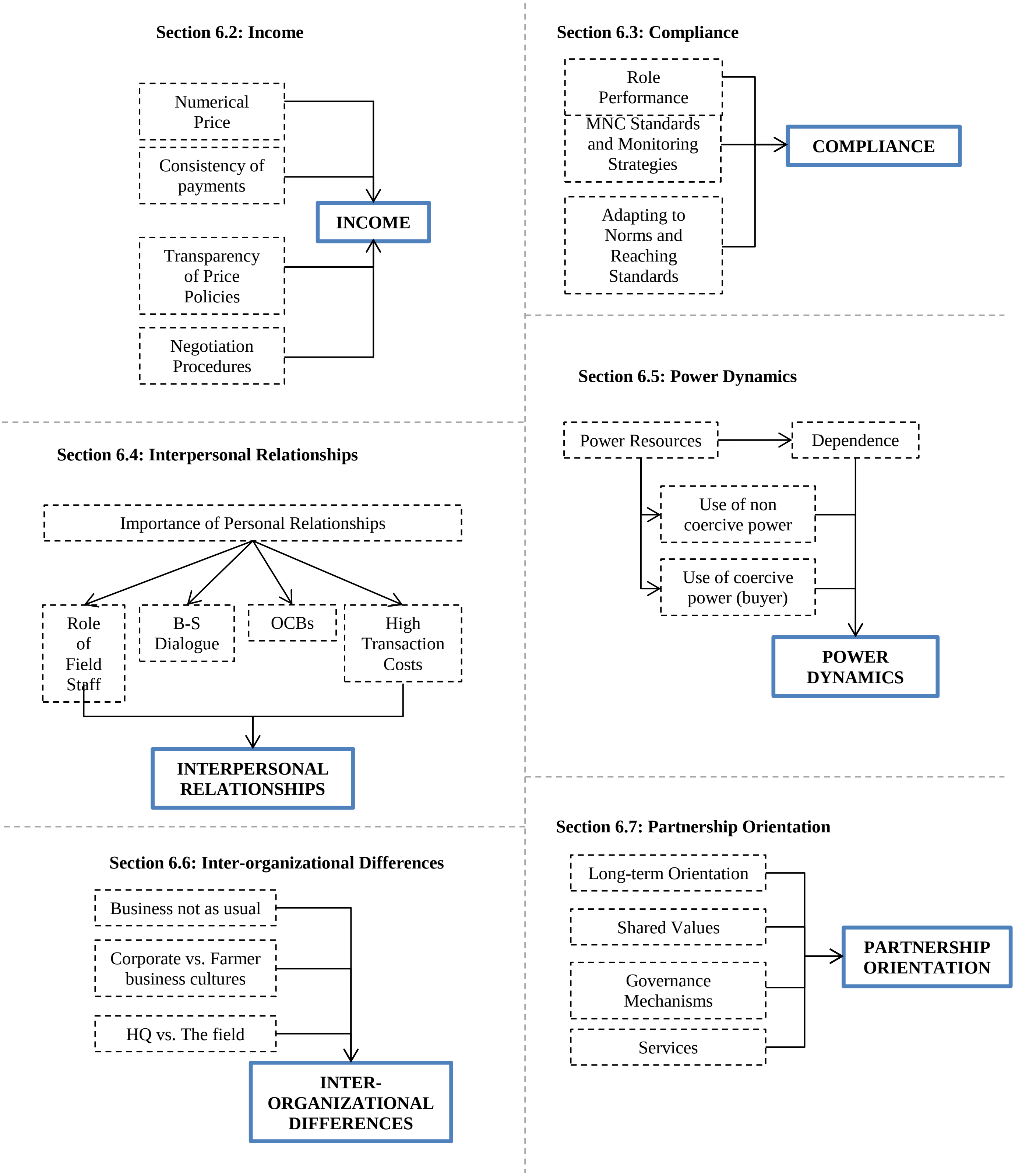


Figure 6-1. Categories from Axial Coding

Source: Elaborated by Author

6.2.Income

Income appeared to be one of the most determining elements in the success of the relationship between buyers and their smallholder suppliers. When asked what the most important aspect was for them in the relationship, the vast majority of smallholders answered that the producer price they received from a buyer was the most significant factor in their choice to work with one buyer over the other. In general, the economic dimension for the smallholder appeared at any stage of the relationship as the factor that could "break or make" the B-S relationship, whether in the initial negotiations with a new buyer or after several years of working together.

Section 6.2: Income

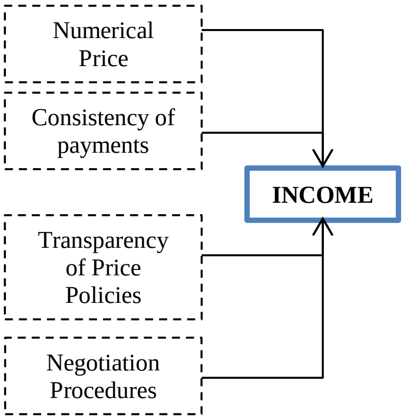


Figure 6.2. Category "Income"

Source: Elaborated by Author

The category "Income" encompasses various properties, from the **numerical price** that a producer receives to the **consistency of payments**, as well as the **transparency of price policies** and the fairness of **negotiation procedures**.

6.2.1. Numerical Price

Negotiating and obtaining a fair price is the most important criteria for the smallholder producer. This is a particularly worrying topic for producers who are in a sector where there are no formalized purchasing agreements and prices are negotiated weekly or even daily based on market price variations, as it was observed in the milk and vegetable value chains. In these cases, buyers that compensate below a certain expected level have trouble retaining producers who will systematically follow the buyer who offers the best price.

For smallholders, what's important is knowing how much they will sell, to whom, when and at what price. (Ext1).

I like this company, but I'm probably going to start working with someone else soon… you know, price policies. They are paying me a little under what they should be […] and the market for milk is good right now so I can easily find a buyer that will offer me a few more cents per liter than what these guys are paying me now. (P10)

Because no one works with contracts, relationships are very instable and producers tend to move from one buyer to another without warning whenever they can obtain a better price. Prices are the main driver of which buyer they will work with. (Ext3)

The numerical price paid by a buyer to the smallholder is the "first impression" of the B-S relationship and is often the only determining factor at the start of a relationship between a company and a smallholder. Setting a fair and just price is therefore necessary to attract suppliers, however it is not enough to retain them.

6.2.2. Consistency of Payment

Beyond the numerical price that farmers are able to negotiate, **receiving the actual payment in a consistent manner** stood out as an equally important preoccupation. There are several reasons for this. First of all, in remote rural areas where small-scale farmers have limited access to distribution channels, they tend to rely heavily on chain intermediaries or middlemen who sell their produce for them. However, farmers have no control or visibility on whether the produce is sold or not, at what price and in which quantity, making it easy for middlemen to mislead them on the total value they earned. In many cases, the "*atravessador*"[4] will simply not return to the farm and the farmer will never receive the value for his produce. The following quotes illustrate the common deceitful practices on the part of middlemen and the resulting fear that can be observed among Brazilian smallholders of not receiving payment.

Since they are isolated, most small farmers sell their products to a middleman who comes to the farm gate offering to sell their products for them. The farmer has no choice but to receive whatever value the middleman has to offer and not an actual fair price reflecting the minimum value of his production plus a margin. (Ext4)

Interviewer: Why do you prefer selling to BM3 rather than to a middleman?

[4] "Middleman" in Portuguese

> Producer: Because at least BM3 doesn't try to hide things like the middleman, I get a better margin, there's this idea of security. Prices vary less […], but with middlemen the price changes every day, every time he gets the chance he tries to squeeze more from me. (P4).

These chain intermediation schemes continue to be very frequent in the cases of most Brazilian smallholders and have fostered an overall fear of being deceived on price and payments. Many small and local buyers also act in similar ways because they lack formal professional and managerial skills, resulting in little consistency in payments. Absence of communication on the buyer's part on price variations, lack of consistency and late payments are often perceived by the smallholder as a sign that the buyer is deliberately ill-intentioned and can most likely lead the producer to leave the relationship. Even when there is a long-standing history between the buyer and the supplier, smallholders will tend to exit the relationship when they lack security on receiving payment, as illustrated by the following quote:

> Interviewer: You worked for 18 years exclusively with the same dairy company?
> Producer: Yes, my father worked with them for many years before I took over. But recently we stopped working with them because they were becoming late with their payments each month, so we said 'we can't work like that'. (P12).

Another reason for this constant preoccupation of receiving payment is that farmers are naturally more risk-averse because of their higher vulnerability to price and market variations, climate changes and economic downturns. For example, few are willing to take on debt to make investments and will only use their own resources, because by experience, they remember moments of not having received a payment they were promised by a buyer and fear that this scenario could happen again.

> I stopped selling to big companies. They ask a lot of you but they don't feel obliged to hold up their end of the bargain. Last time I agreed to sell to a big supermarket chain, I had to make an investment because they were asking me for 40,000 kilos of produce. When I was ready to start delivering the order, they told me they were overstocked and didn't need it anymore. It took me ten years to pay off that debt. I said 'never again'. (P3).

This higher aversion to risk increases their concern to secure payments on time and as pre-agreed upon with their buyer.

> The most important thing for us is that 'the company' does what it said it would and respects the agreement. If we agreed on this price, then we will receive this price. If they said they would pay us each first day of the month, then that's the way it should be, no? (P1).

> There is a form of insecurity in the relationship, especially on the producer's part who always has some apprehension of failing financially, of not getting a fair price. (BL2).

Companies that have developed the awareness of the importance of consistent payments and that have made it a policy to pay producers on time have noticed a higher level of satisfaction and loyalty in their supply base, and were also praised by their producers for this.

> One important point concerning our producers' loyalty is that our cooperative is financially solid. In 72 years, we have never paid our producers late […]. And the producers value working with a company that pays on time. (BL3)

> Mainly, on the issue of security, the producers know they can trust us […] Our company gives them this security of knowing they'll be paid at the end of the month. (BL1)

> I like working with BL1, they're good people. […] Especially since lately they've been reforming their way of working with the producers, sometimes they used to pay a little late, but now they've improved a lot of things […] One things for sure with them, they're reliable, you can count on them. (P10).

6.2.3. Transparency of Price Policies

Transparency in the way a company sets its price policies was also regarded as important within the theme of income security. In many cases of informal B-S relationships where there is no official contract between the two partners to clearly set how much a producer can expect to receive for a given quantity and quality of produce, buyers have been known to change their price policies without informing their producers, a practice which many producers perceive as unfair.

> I've never heard of a company that will let you know if the price goes down… I mean by that, no company is going to call the producers and hold a meeting with them to let them know that prices have gone down, or come to your house to have a chat with you about that. You'll just find out when you receive the next payment sheet and that's it. (P10).

> It's often that many companies will agree to pay the producer a price X but at the end of the month they'll pay him Y without explanation. (BL1).

> It's very difficult for producers to understand that one month they receive 0.90 and the next 0.60, and many companies don't tell them how the price is calculated […]. For example, this other large multinational has a rule of indexing producer prices on market prices […]. In cooperatives we don't follow this policy because for the producers it's very traumatic. (BL3).

In other cases, prices are not set on an equal basis by the company and everything is agreed on through individual negotiations. As a result, two producers supplying the same product with similar levels of quantity and quality can receive two very different prices depending on how well each one was able to negotiate with their buyer.

> Interviewer: What kind of price policy do you have with your smallholder suppliers?
> Manager: There is no price policy, everything happens through direct negotiations with the producer. They tell us what kind of costs they have, how much they want, and we take a look at it and negotiate something in the middle. (BM3b).

> They'll be paying one price to one producer but why won't they pay me the same thing? Sometimes the company will charge a producer and pay him less based on how far away he lives… so the ones who live close to the factory are getting more than the ones who live farther away. (P10)

> If I am able to negotiate a better price with the buyer, I know they'll probably lower the price that they're paying someone else as a result. If I get more, someone else gets less, you understand? So when you speak of transparency, I really think it's a fundamental point in the relationship with the company (P9).

MNCs were generally appreciated for having more transparent price-setting practices than local buyers, for example through the use of price grids that established the price that can be expected for a given quality and quantity of produce for all producers: producers perceived these systems as fair, as compensations were based on individual merit and efforts. Informational transparency and clarity on the buyer's part can make an impacting difference in the stability of the B-S relationship in the long term.

> Interviewer: What is a transparent price policy according to you?
> Producer: You have companies that have a costs table telling you exactly which price you'll receive if you supply this quantity and this quality. It's clear and everyone goes by the same rules. If I deliver the same quantity and quality each month I know how much I'll receive. (P10).

Interviews from the field brought forth the observation that producers have a low ability to tolerate a lack of transparent information on why prices evolve the way they do. Their perception that the buyer is unfair and sets prices arbitrarily can push them to leave the relationship, not only because of their propensity to avoid risk but also because they feel the buyer is abusive in his position of power.

> Interviewer: What would be the ideal situation for you?

Producer: The ideal would be if I call up my buyer to ask him to pay me the same as he's paying my neighbor, that he tell me the truth. I'd rather that he answers me straight out 'look, I can't pay you that right now', but no, they'll always keep you hanging with an 'Ok we'll see' but they'll never do anything. (P10).

Interviewer: Would you go find another buyer if they said that?

Producer: Probably. Nobody pays me for loyalty.

6.2.4. Negotiation Procedures

Similarly, the way **negotiation procedures** are carried out can highly affect the B-S relationship. Depending on the sector and the type of sourcing scheme, price negotiations can be a more or less predominating aspect of the B-S relationship. In some contractual agreements, negotiations only take place when contracts are renewed, generally at every new production cycle or once a year. In this case, interviews have shown that smallholders felt more security in these types of schemes where they don't have to constantly monitor and negotiate prices with their buyer and where a contract fixes a price.

Interviewer: Do you ever worry about getting a lesser price?

Producer: No. We only talk about the price when we renew the contract with BM1, and generally it either stays the same or goes up a little. (P2)

However, in other cases, prices are negotiated every time a purchase takes place, like in the example of smallholders supplying retailers and supermarket chains or in the milk sector. Having to renegotiate prices constantly with the buyer was perceived as a strong factor of stress for these producers.

There isn't anything formally established, everything is decided through negotiations. The producer talks directly with the store manager. (BM3b).

Producer: You have to fight and plea every month. (P10).

One thing that I keep asking them to consider is to do an annual price contract that says 'all year long we'll buy your peppers in this price range', with a price that can't go below X amount and higher than X amount. […] Some months I'll win and some months I'll lose, but I'll know on average how much I'm getting all year long. (P5).

Moreover, what seemed to be even more important was the buyer's disposal to negotiate and openness to improve the supplier's overall price over time. In other words, farmers who were at least given channels and opportunities to voice their price expectations – even if these expectations were not necessarily always met – felt more satisfaction in the relationship than those who worked with buyers who did not show the same open-mindedness to negotiating. Similarly, this higher satisfaction was observed for producers working with companies that offered opportunities to obtain price premiums based on better quality or higher volume.

> Suppose I protest and say I want them to pay me the same thing that they're paying my neighbor. That won't change anything… they'll just keep doing what they do. (P10).

> I've been working with this buyer for a long time and I think they're a good company, they're a sure bet. Just today I called them, wanted to know the price of milk they'd be paying this month because I talked to other buyers who were willing to pay me more, they said the price was one Real but that they'd come over tomorrow so we can talk about it. (P13).

> One of the advantages of working with a large company is that they care about seeing you improve and they're open to paying you more when you become better, which is something regional companies don't do. (P9).

6.2.5. "Income" in a Transactional vs. Relational Exchange Perspective

Ultimately, the numerical price offered, the consistency of payments, the transparency of company pricing policies and the format of negotiation procedures are all components that seemed to have a significant impact on the producer's feeling of economic satisfaction, security and perception of fairness in the relationship. We could even say that this perception of fairness of the producer, namely of being fairly compensated in distributive and procedural terms, is the first impression that will influence the most the producer's decision to work with a buyer or to switch to another. In B-S relationships that are primarily based on transactional considerations, and where price is the only significant variable in the business exchange between the two parties, smallholder farmers will always follow whoever offers the most advantageous price. Unavoidably, basing these relationships on price and price only can result in very unstable supply bases for companies who face higher risks of their producers side-selling to another buyer whenever a more generous offer comes their way. Going beyond a purely transactional B-S relationship is necessary in order to strengthen producer loyalty and retention.

> Using price as a captation strategy will in all logic allow you to secure a large quantity of producers at first. But as time goes by, the producer needs more, he needs to feel security and to know whether he can trust you or not. (BL1)

Table 6-1 below illustrates the difference between a transactional exchange and a relational exchange regarding considerations relevant to the category "Income".

Transactional Exchange	Relational Exchange
Lowest producer price possible	Fair producer price
Sporadic payments	Consistent, on time payments
Unclear price policies and reasons of price variations unknown	Transparent price policies and open communication on price variations
Shut negotiations and little opportunity to receive a better price	Openness to negotiation and opportunities to receive price premiums

Table 6-1: Income: From Transactional to Relational Exchange

Source: Author

6.3.Compliance

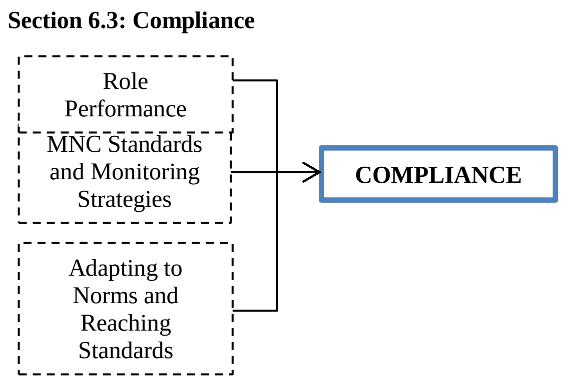


Figure 6.3. Category "Compliance"

Source: Elaborated by Author

Compliance is an essential component in the B-S relationship and a major preoccupation of companies working with smallholders. Sourcing from smallholders responds to a business necessity for companies: within this strategic and commercial necessity for the buyer and supplier to work together, the smallholder has a specific **role performance** in the relationship. However, because smallholders have low technical qualifications, poor quality and use little production technologies, they are in a more difficult position to perform their role and MNCs feel insecurities regarding their potential ability to comply with their requirements and need to implement **monitoring strategies** to ensure compliance. Smallholder producers working with MNCs have to **be willing to adapt** to tightly controlled production norms to reach the high standards of these demanding companies if they want to remain in the relationship and gain the trust of the MNC.

6.3.1. Role Performance of the Smallholder

Sourcing from smallholders corresponds to a business necessity of the MNC: indeed, because of the smallholder-dominated nature of a certain food value chain, the region where they are sourcing or the type of HVF product they seek, companies that are working with smallholder suppliers in Brazil do so out of a strategic need. This explains why, despite the inherent challenges of working with resource-poor suppliers, MNCs enter in B-S relationships with smallholders as explained by one of the interviewed key external informants:

> Bear in mind that these companies also need the smallholders to access markets, source products or sell inputs, and they realize that they need to work with the smallholders. […] They see the opportunity, and also they know that there's no other way. (Ext1).

The commercial exchange between MNCs and smallholders thus responds to business rationale rather than a CSR strategy, as it can sometimes be presented or perceived in publications on these types of inclusive business models. In the cases observed in this research, we were in fact looking at exchanges that were concerned with being commercially viable.

Within a business exchange between two partners, the idea of a partner's "role performance" refers to the fact that a partner carries out the responsibilities and tasks it holds in the relationship accordingly to the other's expectations. In the B-S relationship between MNCs and smallholders, part of the smallholder's role performance is to produce accordingly and compliantly with the MNCs expectations in terms of production requirements.

> What matters is that the producer has a sense of ethics, that he respects the firm's standards, that his way of producing is aligned with our principles and values, that he respects children and the environment. I think that basically that's the way we can work as partners. (BM1a).

6.3.2. MNC Standards and Monitoring Strategies

MNCs working with smallholder farmers fear that their suppliers' ability to effectively carry out their role is potentially unstable because smallholders lack financial capabilities, technical background, scale and the experience of working in large supply chains. This insecurity of firms on the issue of compliance is all the higher as smallholders are, in their majority, limited in their knowledge of these norms and in their understanding of why they exist. This is the other side of the “insecurity” coin: While smallholders feel insecure about their income – and will gain trust with a company if this insecurity is appeased, as seen in **section 6.2** – companies feel insecure about the farmer’s ability to comply with its production standards and requirements.

> Companies are also skeptical on the reliability of smallholders, such as on quality of products or timely delivery. They find it challenging and very time-consuming to work on this particular type of partnership. (Ext1).

> It is always hard to implement quality norms because the small farmer is generally of an older age or was taught by a previous generation of farmers that production is done “this way” and it is hard to change that culture. For example, many of them don’t understand why they should recycle waste or use a protection suit when spraying the field with pesticides. (BM1c).

MNCs perform with much stricter requirements than local buyers, notably because of international production standards, corporate policies and legal obligations. Moreover, compliance is an important issue for MNCs that receive pressure from external stakeholders and are concerned with preserving their reputation. As an example, one interviewed MNC underlined how it was putting pressure on its vegetable smallholder suppliers because an NGO had just reported that the MNC allowed higher levels of toxins in their baby foods sold in South America than with the norms the company applied in Europe, which caused reputational damage. As a result, the company tightened its production norms with its producers. Reputational concerns thus also appeared as a driver for MNCs to implement strong monitoring strategies to ensure smallholder compliance.

> I’ve had to go and explain to all the producers what the new requirements were and we’ve had to put a very strict control on them to make sure these new norms were immediately effective, we can’t take more risks with poor quality compliance. (BM1c).

Another example came from an MNC that had been targeted by NGOs for working with suppliers who employed child labor. Today, ensuring that all their smallholder producers worldwide do not employ child labor is one of the company’s highest preoccupations in terms of compliance.

> When I talk about trust and compliance, I’m not just talking about producers respecting delays for delivery but also that they respect the law, business ethics, that they don’t have children

> working on the farm, these are themes that are extremely relevant for us, the producer has to work in conformity with these aspects. (BM3a).

For MNCs working with resource-poor smallholders, an essential part of managing the supplier relationship thus involves ensuring that suppliers are compliant with the corporation's production requirements, which means they need to dedicate more time and resources to monitor compliance. MNCs used both coercive and non-coercive strategies to monitor their suppliers, from tight contract clauses indicating how the production process must be carried out and specifying possible sanctions and penalties in the case of non-compliance to hiring permanent field supervisors and agronomists to deliver technical assistance to suppliers in order to inculcate their production norms and make sure they are respected. Finding the right mix of coercive and non-coercive monitoring strategies was important to obtain flawless compliance from suppliers without damaging their perception of fairness, as we will discuss in **section 6.5**. Tight contract clauses without a regular presence on the field and well-established contact with smallholder suppliers did not enable a company to monitor compliance in an optimal way. In the case of one of the observed companies (BM3), as quoted above, ensuring that farmers did not use child labor was stated as paramount, but during the field visits to BM3's smallholder suppliers, it became clear that the company had no actual mechanism to monitor if this requirement was effectively respected because they have very little direct contact with their producers.

Indeed, non-coercive monitoring strategies such as direct dialogue with farmers and presence of a company's representative on the field proved to be more effective in fostering a long-term sense of partnership with the suppliers, as we will also discuss in further sections.

> At first, many farmers complained that we were pressuring them with environmental norms and were reluctant to enter our certification program, especially since it involved making big investments over several years. We decided to open the dialogue with them by sending agronomists around the different regions to talk with the suppliers, answer their questions and explain the program to them. It was important for us to get them on board. (BM2)

The farmer's goodwill in adapting to norms also plays an important part in appeasing insecurities and gaining the MNC's trust.

6.3.3. Adapting to Norms and Reaching Standards

Interviews with smallholders working with MNCs in Brazil showed that they had to accept to adapt to strict quality norms in a production environment where quality is not normally controlled by the majority of local buyers. Indeed, many smallholders that are unaccustomed to working with such high standards resist to change or simply do not understand why certain rules should exist, such as recycling, hygiene procedures or bureaucratic formalities. Many farmers continue to prefer working informally without contracts, invoices or paperwork and refer to these formalities that MNCs require as "headaches". Because MNCs have high compliance norms, smallholders generally perceive them as "very demanding", "strict" and that selling to them is "too difficult".

> I keep trying to convince my neighbor to come work with BM1, but he says he can't because they ask for too much. (P8).
>
> The first years were difficult: it was hard to adapt, BM1 is very demanding. (P1).
>
> Many producers in the region are not formalized, however to work with this company they need to be formalized and declare their activity and revenues. When we try to recruit new suppliers, many simply refuse to go through all those 'headaches'. (BM1c)

At the start of the B-S relationship, smallholders generally have to adapt many elements of their form of production and in their way of working to reach the company's standards.

> It took us twelve months after the first conversation we had with BM3 to be able to make our first delivery. […] They're very demanding, we didn't have the right infrastructure, the right inputs, we didn't have anything and they asked us to invest a lot. They even told us we needed to learn how to use a computer because they work by e-mail. (P4).
>
> When we wanted to start working with them, they said 'OK, but you'll need to build another shed for the milk tank to be in line with the company's norms'. The previous buyer we worked with didn't care about the shed, but in fact it was not well built. We had to invest to build a new shed to keep the tank in order to be authorized to sell to BM1. (P7).
>
> They require that we have treated water, that we don't have any livestock running loose, they check the quality of the feed we use and where it's stocked, that we don't have any rats. (P7).

In the B-S relationship, the smallholder's ability to see these requirements as an opportunity to grow and his/her willingness to adapt is key to gain the company's trust and ensure the continuity of the relationship.

> If you want to work with BM1, you have to be open to change and have the will to grow and improve. That's the first thing. (P9)

> It's clear that those producers who have been with us the longest are those who had an entrepreneurial spirit and were not closed to making changes especially on the issue of quality. (BM1d)

> You have producers who decide to go work with a more local buyer because they don't ask for as much as the international ones. I tell them 'you'll see, one day they will ask for it and you'll be sorry for having stayed behind'. (P8).

6.3.4. "Compliance" in a Transactional vs. Relational Exchange Perspective

Table 6-2 below illustrates the difference between a transactional exchange and a relational exchange on considerations relevant to the category "Compliance".

Transactional Exchange	Relational Exchange
Distrust on supplier's role performance	Trust on supplier's role performance
Dissociation from partner's reputational concerns	Stewardship towards the partner's reputational concerns
Rejection of company standards and procedures	Adaptation to company standards and procedures
Compliance norms seen as an inconvenient for the producer	Compliance norms seen as an opportunity to grow for the producer

Table 6-2: Compliance: From Transactional to Relational Exchange
Source: Author

6.4.Interpersonal Relationships

The role of interpersonal relationships and their influence in the maintenance of the B-S relationship was one of the most salient aspects from the field research, and is probably one of the most underestimated elements in B-S relationships. In the first sub-section, we will describe **the importance of personal relationships** for producers in the business exchange, followed by the idea that the **role of the field staff** that companies hire to manage the B-S relationship has a strategic impact on the success of these relationships, and an error in human resources can potentially have a negative impact on the sustainability of the relationship. Finally, ensuring that the right channels are in place for B-S **dialogue and communication** and placing focus on **organizational citizenship behaviors (OCBs)** make a difference in the long-term maintenance of these relationships.

Section 6.4: Interpersonal Relationships

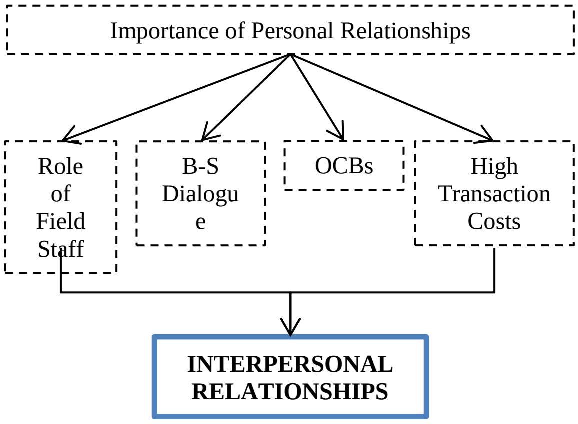


Figure 6.4. Category "Interpersonal Relationships"

Source: Elaborated by Author

6.4.1. The Importance of Personal Relationships

The importance of personal relationships emerged as a significant socio-psychological construct in the minds of the interviewed producers, especially since rural culture in Brazil places a very high value on personal relationships with neighbors, friends, family and other members of the community. When asked about their relationship with the company, one of the first aspects that the producers would generally touch upon was their personal relationship with the company's representative or supply chain supervisor, demonstrating that in their conception of the business exchange, they deal more with a person than with an organization. It appeared that the producers who had a good personal relationship with the field supervisor felt more confident and satisfied with their buyer than those who either did not get along or had a non-existent relationship with the representative.

> Smallholder producers prefer associating with a company that's close to them, that's for sure. […] The big companies don't pay attention to that, they are more focused on short-term and economic considerations in their relation to the producer. (BL3)

> You have lots of dairy companies that buy from you but you don't even know their personnel at all. The staff we work with, they're friendly, they know everyone, they're always coming around here to give us advice or to negotiate in person. (P11).

Above all, good personal relationships played an important role in fostering loyalty in business deals. Some producers preferred working with very small, local and nonprofessionalized buyers rather than large companies, even when the company's offer was better, simply because the other buyer was a "friend". As a result, it seems that smaller, more local players have an advantage over MNCs in their ability to create stronger relational focus with smallholders.

> I chose to stay with the neighbor I'm working with right here. […] It's easier to deal with the neighbor and agree on things, if ever there's a little problem I know he's next door […] It helps being neighbors, we have a friendly relationship. Like last week, since he buys feed in bulk he gets lower prices, and he gave me a price on the sacks of corn, I saved 6 reais per bag that way. (P12).

> The difference between working with a cooperative and a large multinational is… basically the vertical integration model is the same. The only thing is, like I said, if I need to talk to the manager, I can do that in a cooperative. It's much harder to get their attention in a big company, there are a lot of processes to get in contact with them, and even when I get to speak to the guy it doesn't mean he's going to come down to talk to me in person. (P18).

6.4.2. Role of Field Staff

Naturally, if personal relationships are of the utmost importance for smallholders, the company's representative on the field who will be the main contact between the company and the smallholder needs to be a strategic choice of the company.

First of all, smallholders felt more attached to the company they were working with when they had a permanent contact on the field. In some cases, the smallholders only saw the company representative on rare occasions, when he/she traveled from the city headquarters to the field for a few days. In cases where the personal relationship between the smallholder and the buyer was quasi non-existent, interviews showed that the smallholders did not feel close to the company, did not consider them a "partner" and that the potential for conflict and tension was higher.

> When we started working with them, the guy asked me to get in touch with him to negotiate the price. I said 'ok, I'll call you'. He said 'I don't have time to spend over the phone, send me an e-mail'. I thought, 'this is going to be complicated' and almost left. […] The only time we speak in person is when we need to make changes to the contract. (P4).

> The *cachorros grandes*[5] they generally have their offices 100 km away from here in one of the big cities, you can't just call them up for a chat, they don't know the people from here (P17).

[5] Original Portuguese expression in the interview, literally translated as "big dogs", referring to MNCs

Interviewer: BM3 has a total of 3 field supervisors for its 10,000 smallholder producers in the whole country?
Manager: Yes, we have to visit them personally and maintain contact with all of them. Obviously I'm not available to see them all the time since I work here in São Paulo, but I have to schedule trips to do the visits. […] In reality my missions are more short-term oriented, I go out to the field to find new suppliers but I don't have time to visit the existing ones (BM3b)

Secondly, the companies that hired supervisors who were already familiar with the region, knew the realities of the producers and were integrated within the rural community fared better than those who did not. Similarly, those that were close to the producer's life, possessed interpersonal skills and took the time to create personal ties outside of business matters were also more appreciated by smallholders.

I don't see the point of going to work with another company when the relationship we have here is good. If our supervisor was always coming to fight with us or put pressure on us it'd be another thing, but we get along well. And this is something that we won't find if we go work with another company. (P9).

They know me well, I have a good relationship – even friendship – with a lot of the producers. I'm from their region, I know how things work, the producer's profile, how he thinks, what his routine is like, what expectations he has and so on. I think that's a factor in how we're able to construct durable relationships with our producers. (BL1).

When I go to visit them, they often invite me to sit down and have a coffee while we chat, I know their families and their houses. (BM1c)

Without a doubt, when I was a trainee, I learned how to speak to the producers, how to interact with them, how to build familiar relationships with them and how to convince them. Of course that helps me do my job today. (BM1d).

Interviews with the field supervisors of these companies confirmed the importance of their role. Many of them insisted on the fact that the relationship they had to manage with smallholder suppliers was a particular human relationship that could not be conducted in a traditional commercial way. On this particular topic, one of the field representatives of one of the interviewed MNCs gave insights on how one's self awareness and ability to manage behaviors, tone of voice and personality is a critical skill:

When I go talk to the producers, I have to remain simple and informal. The producer wants to deal with a human, not a corporate machine. If I start talking in a very formal, business-like

> manner or if I use technical terms and factory statistics, they'll think 'oh that guy's arrogant' and there won't be any chemistry. (BM1c).

Interpersonal skills of the field supervisor indeed proved to be essential and had a direct impact on the producer's perception of fairness from an "interactional" or "interpersonal" justice point of view. If the field supervisor did not try to display signs of familiarity, closeness or friendliness with the producer, building trust between the company and the smallholder was difficult if not impossible. Moreover, if the field supervisor displayed signs of remaining distant from the producer and of not wanting to "enter the smallholder's realities", the producer's perception of fairness could be directly impacted. Hornibrook et al. (2009, p. 796) remark on this point that interpersonal justice "reflects the degree to which individuals are treated with politeness, dignity, and respect by those involved in executing procedures or determining outcomes". Perception that the buyer partner did not act fairly in terms of interpersonal justice could indeed lead to retaliatory interpersonal behaviors on the producer's part or push him to exit the relationship, both of which would affect the supply chain as a whole.

> One of the other field supervisors is a little cold and more distant. He goes to see them to talk only about business only but never sits down to chat with them in the way that you've seen me do, he goes right to the point. So the producers consider him a little cold and arrogant and don't like working with him. They don't understand why he's like that and they complain about it. (BM1d)

Demonstrating availability on the field also appeared as an important side of the relationship, as it showed the company's reliability to help the producers whenever they need assistance. Field representatives that understood the importance of being available for the producers were those that were more easily able to establish strong relationships with them.

> I know what the job is like: creating a relationship with the producer, being available 24 hours a day, every day, whatever the issue, the phone always ringing and you have to answer, giving support on the field, all of that. (BL1).

> Roughly 70% of my job is spent on the field with the producers. (BM1c).

> I don't have days off at my job. You have to be available for the producer. He's working every day, he gets up at 5 in the morning. The plants don't stop growing just because it's Sunday. And I have to be available if he encounters a problem at any one of those moments. (BM1c).

> Whenever I have a problem I know I can call him the agronomist up and he'll come by on the same day or on the next. It's easy to talk to him. (P2).

6.4.3. Buyer-Supplier Dialogue

Establishing two-way communication was an essential part of maintaining interpersonal relationships. Because rural culture can be radically different from corporate cultures, companies need to engineer communication channels in an appropriate way. Many MNCs used online platforms and sent out monthly newsletters where they would not only communicate about news within the company, prices, climate evolutions and good farming practices but also interview producers or experts and feature the best producers of the month. More developed local buyers used monthly newsletters to communicate on quality issues or send out educational content on farming practices to their suppliers. While these communication tools are undoubtedly a good way to give out a condensed amount of information in a uniform and transparent way, interviews showed that they were often inappropriate for producers who were not accustomed to using this type of technology or communication and that direct personal communication was also needed in addition to ensure clear mutual understanding in the relationship.

> Coming by to have a chat with the producer just to see how things are going and if he needs anything, you know, to give the producer some motivation… I think that's important in a partnership. (P12).

> Now, thinking in terms of what brings the producer satisfaction? I would say it's dialogue with the buyer, because many times people think that the only thing the producer is interested in is knowing the price of milk, and in reality it's not. I think that opening dialogue, trying to give support, some form of orientation so the producer can obtain additional information, and even technical assistance, that's just as important (BL1).

> We send out information by mail, we have an online platform where the producer can do a simulation of how much he will earn, we organize training sessions and presentations, but going to the producer's house is really the best way to make sure everything is ok. You have to be able to answer their questions in person and reassure them if something's not going right. (BM1d)

6.4.4. Organizational Citizenship Behaviors (OCBs)

OCBs can be described as "going the extra mile", or in other terms, going beyond what is required and enforceable in the partners' respective roles in the B-S relationship. OCBs are discretionary, in the sense that they are not explicitly rewarded and are accomplished out of personal choice rather than obligation. In this field research, examples of OCBs were observed between buyers and smallholder suppliers, which indeed contributed to enhancing the performance of the relationship.

OCBs such as courtesy, respect, empathy and thoughtfulness facilitated interpersonal contact in the relationship, mitigated the sense that the MNC and smallholder were unequal and enhanced the producer's perception of fairness.

> It's the same thing as a boss and an employee I would say. If the boss is good to you, shows you honesty and respect, the employee will also be good to him. (P15).

Demonstrations of conscientiousness on the part of one of the partners, defined as the act of going beyond what is minimally required, were appreciated by the other partner and raised thoughtfulness in the relationship. Generally, these small gestures "made the difference", such as producers who put extra attention into the quality of the product beyond what was asked of them or MNCs who were attentive to specific needs of the smallholder beyond simple transactional considerations of the business exchange.

> We've been with this producer for 20 years, he's quite special. He goes out every morning and cleans the dust off from the plants, he puts a lot of care and attention into the produce. Few producers do that. (BM1c).

> Before they used to come and collect my milk at any time of the day, I had to leave the tank turned on all day. Today, they're more careful with that and come at a specific time in the morning, that way I can leave my tank turned off for the rest of the day until the next milking, which allows me to save energy. (P10).

MNCs that also showed interest in the farmer, attempted to understand his daily realities and valued the agricultural profession were able to develop higher levels of trust with their smallholder suppliers who felt appreciated in their role.

While these observed OCBs are difficult to measure and were for the most part intermittent and unconscious, meaning that they were not part of calculated strategies on the part of the stakeholders of the relationship, they were clearly identified throughout the field research as generating positive outcomes for both partners and for the performance of the relationship and were clearly linked to the smallholder's perception that the buyer was inherently good and fair.

6.4.5. High Transaction Costs of Interpersonal Relationships

I've underlined in this section the paramount role of a company's field staff to foster motivation and trust in the B-S relationship through well-established and well-maintained interpersonal relationships with the producer. Demonstrating interpersonal skills and OCBs through friendliness, understanding, courtesy and constant availability were observed to drastically improve B-S relationships and heighten trust in these contexts. Using appropriate communication channels and taking the time for direct, personal dialogue was similarly crucial. The downside of implementing these strategies is the high transaction cost that they incur for companies.

> I'll give you an example. Imagine that you have to attend each one of your classes in a different building all around town. Can you imagine going from one end of the city to the other every day? It would take hours! That's the same thing for us when you suggest that we should have personal relationships with each one of our producers, it's just not possible. (BM2).

Indeed, having personal relationships with every producer is costly in time and resources, requiring the permanent presence of one or several supervisor on the field in charge of doing these visits. Having accompanied field staff on their farm visits in various field trips, I observed that a field supervisor was able to visit no more than 3 or 4 farmers a day, with a considerable amount of time spent on the road to travel from one farm to another in remote and often poorly accessible locations. I also observed that local buyers that worked with lower volumes and were better embedded in a small region had more ease to develop interpersonal skills with their producers than a larger company or an MNC that worked with higher volumes, a larger number of producers and in a wider geographical radius. The question of transaction costs is important to point out as it can highly impede the development of these personal strategies that are relevant to inclusive business models.

6.4.6. "Interpersonal Relationships" in a Transactional vs. Relational Exchange Perspective

In a transactional exchange perspective, there is little if any room for interpersonal relationships between the partners of the exchange. By definition, a relational exchange places much higher importance on developing relationships between the two business partners, which is why the category of "interpersonal relationships" in this research is particularly appropriate in a relational exchange perspective.

Table 6-3 below illustrates the difference between a transactional exchange and a relational exchange on considerations relevant to the category "Interpersonal Relationships".

Transactional Exchange	Relational Exchange
No particular HR strategies to manage smallholder supplier relations	HR strategies aligned with the needs and realities of smallholder suppliers
Indirect communication and lack of permanent contact on the field	Availability on the field and open, personal dialogue in addition to indirect communication
Lack of focus on interpersonal skills	Interpersonal skills training for field staff
Absence of OCBs	Demonstration of OCBs

Table 6-3: Interpersonal Relationships: From Transactional to Relational Exchange

Source: Author

6.5.Power Dynamics

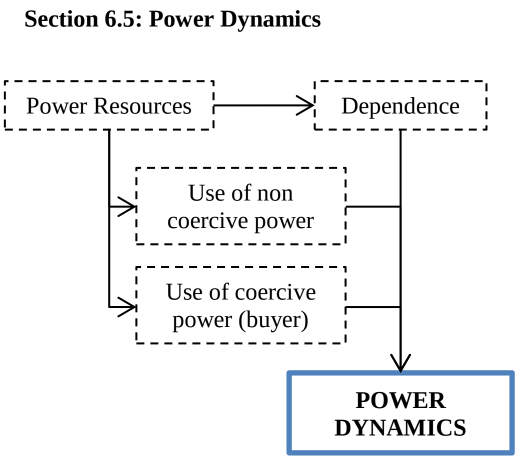


Figure 6.5. Category "Power Dynamics"

Source: Elaborated by Author

The issue of power in the relationship was observable under many forms throughout the field research. The most evident observation that came to light was that companies detain most, if not all, of the power in the relationship while smallholder farmers are often in a position of dependence, but that the use of certain types of power is not necessarily detrimental to the relationship. The description of the power dynamics at play starts with a detailed account of the **power resources** that the partners have, which explain why power imbalances can occur. For didactic purposes, the description of the power resources observed follows the construct of Cox et al. (2000) presented in the literature review, namely utility, scarcity and information. Secondly, we will discuss the notion of partner **dependence** which naturally tends to result from power imbalances in the B-S relationship. This section then details different examples of **coercive and non-coercive power usage** observed throughout the research in the B-S relationship. Once again here, for the sake of clarity, we will use a typology explained in the literature review by French and Raven (1959) to give an overview of these types of power usages.

6.5.1. Power Resources

In order to describe the different power resources intervening in the B-S relationships, the framework of power resources by Cox et al. (2000) was used, where power in a B-S relationship can result from three sources: utility, scarcity and information.

6.5.1.1. Utility

Utility refers to a source of power that results from the fact that one partner accounts for a significant portion of the other's turnover. This trend was a notable one in many MNC-smallholder relationships, where MNCs often captured most or all of a farmer's production.

> Interviewer: How much of your production goes to 'the company'?
> Producer: I'd say about 90%. The remaining 10% are for our household consumption. (P1)

Because the interviewed smallholder farmers produced in such small scales, it was rational for buyers to catch the entire volume of their yields. In many cases, exclusivity was a term of the B-S relationship, either contractually or verbally, depending on the relationship model used. In contract farming, where companies supply the production inputs to the farmer, the farmer is legally bound to sell to that company only. Most farmers also preferred selling to only one buyer rather than to several and did not mind exclusivity in the relationship, as it increased security.

> The supplier produces for us exclusively. If he wants to sell to other companies that's up to him, but he can't use my inputs to produce for someone else. (BM1c)

> In a system of integration, the swine is not property of the producer. […] When the raising cycle is up, we're obliged to sell the animals back to 'the company' because they provided the inputs in the first place. (P16).

> I only sell 10% of my production to BM3 but if I could, I'd only work with them and sell them everything. (P4)

Utility generally depends on the size and turnover of the more powerful partner: the bigger (smaller) the exchange partner, the more (less) utility power they will have. While buyers often represented most or all of the smallholder's income, smallholders had little utility-based power themselves as they represented only a small fraction of the buyer's total turnover. It was seen that this was, to some extent, less true when smallholders worked with more local buyers: in those cases, the smallholder's volume represented a larger proportion of the buyer's turnover than in the case of an MNC.

6.5.1.2. Scarcity

Scarcity is a power resource that refers to the little availability of equivalent commercial opportunities in the market for one of the partners. Once again, observations and interviews on the field showed that this was a particular power resource of MNCs, who had a large pool of smallholder producers to choose from while most smallholder producers had little other selling options aside from selling to middlemen which, as described in the **section 6.2.**, is an option they fear above all others.

> Interviewer: if tomorrow the company tells you they are no longer buying from you, what would you do or who would you sell to?
> Producer: Gosh…. I don't know. I don't know, really. The only other people who are willing to buy here in this region are middlemen. (P1)

Because smallholders have little other options to access markets and fear losing the buyer, this bestows upon their buyer company a large power resource. Scarcity generally depends on the structure of the sector and the realities of the region, regardless of the buyer's size: in this particular case, it depends on how many buyers are present in the region compared to how many smallholders.

6.5.1.3. Information

This last power resource comes from the ability of one partner to monitor the other's opportunism, in other words the ability to have complete information on the real value of the exchange that is taking place. As seen in **section 6.2.**, farmers often lack transparent information on how prices are decided and have little or no means to control how much they will effectively receive, while buyer companies possess information as a power resource in so far as they have mechanisms to correctly ascertain the value for money of the producer's product, for example by controlling produce quality upon delivery and inflicting potential price penalties if the product does not comply with requirements.

> When the producer delivers to the factory, we have technical quality control teams who come out to the truck and check the quality of the produce. […] That's how we know for sure that the production requirements are met and we can verify the overall quality of this supplier's production. (BM1c).

Information power depended on the buyer's ability to dedicate resources to monitor their suppliers' production (i.e. quality control) and on the producer's ability to obtain transparent information on price policies. Hence, smallholders working with MNCs had more information power than those working with local buyers since MNCs communicated more transparently on prices and acted less opportunistically than local buyers. Similarly, local buyers had less information power than MNCs in so far as they did not have the means to monitor production quality as much.

Table 6-4 below reviews the possession of the aforementioned power resources in the relationships between two different types of buyers and smallholder producers:

Power Resource Type	**MNC - Smallholder**		**Local Buyer - Smallholder**	
	MNC	Smallholder	Local Buyer/Coop	Smallholder
Utility	Strong*	Weak	Strong	Moderate
Scarcity	Strong	Weak	Strong	Weak
Information	Strong	Moderate	Moderate	Weak

* Read: MNCs possess strong power resources based on utility in the B-S relationship with smallholders.

Table 6-4: Distribution of Power Resources in the B-S Relationship

Source: Author

6.5.2. Dependence

When one of the partners of the B-S relationship detains the aforementioned power resources, the other partner naturally tends to be in a situation of dependence, simply because one partner ensures the financial survival and economic security of the other. Farmers that sold all of their production to the company and relied entirely on it for their income displayed this form of dependence in their interviews.

> I don't know what I'd do if they terminated our contract (P1).

> I'm honestly scared to think what could happen to us the day they stop buying from us (P8).

This was often the case in situations of monopsony where there was only one company present in an area capturing all the production from the region's smallholders, or in contract farming schemes where producers are contractually tied to a company to supply exclusively to that company's demand. On several occasions, the word "slavery" or "prisoner" appeared in interviews in reference to contract farming, either voluntarily or inadvertently, to illustrate the idea that smallholders working under contract farming agreements had little liberty and independence to choose what and how they produced.

> You obviously have people who tell me: 'oh, you've become a slave'. Because if you depend on one unique company, you can't negotiate. (P15)

> The result is… how can I say this…what I would call a form of "consented slavery". Consented, because in the end it's still the producer's choice to enter in these kinds of contracts, but they have no independence on their own farm. (Ext4)

> The producer is in some way a prisoner of the factory's orders… I mean, not a prisoner, but… in some way he has to produce according to what we forecast every month, it's not up to him. (BM1c).

In situations of monopsony or contract farming, smallholders are closely tied to a company and their income strongly depends on their buyer's sustained activity. A very clear example of this form of dependence occurred in Tupandí (RS), one of the field visit locations, where the interviewed poultry producers recalled the traumatic event of a poultry-exporting MNC that accounted for more than 90% of poultry production in the region and that decided to close down its activities in Brazil. The poultry producers were vertically integrated in the company's supply chain under tightly coordinated contracts: this meant that the company provided the chicks and inputs, and the farmers were responsible for raising the chicken and then selling it back to the company at a pre-determined price. When the multinational stopped buying from the producers in Tupandí, the entire region's economy endured several years of uncertainty and the producers suddenly found themselves without income and taking on increasing levels of debt.

> That crisis was terrible. We went through 3 or 4 very difficult years. We spent the first year working without receiving any money, you had to ask around for money, to the bank, your neighbors, friends, relatives, just to find a way to make ends meet. (P16).

> They kept sending us new chicks to raise and they would come to collect the chickens as usual. Only thing is they weren't paying us, they were 5 cycles late in our payments. You know 5 cycles, that's about 9 or 10 months. (P17)

> Those big companies, they're major powers. If they want to leave the country or take their operations to another state, what can you do? That's the problem. (P15)

> For several years, our producers were left completely unassisted, they weren't getting paid and they started mounting debt. The local government couldn't help, they didn't have any money either because 60% of their revenues were ensured by the poultry industry. You can imagine how dramatic the situation was for all of us. (Ext4)

However, when asking these producers, who were now vertically integrated with a new MNC that took over the bankrupt MNC's operations, if they felt that they had lost their independence as farmers or were at risk, most of them answered that in spite of the crisis and their dependence on a company, they felt that vertical integration provided them with many benefits and most of all security. It also appeared that producers who tried to remain independent had more trouble maintaining their livelihoods.

> The integration relationship is a relationship between partners. If I'm doing well, 'the company' is doing well, you understand? (P15).

> Everything I earned in life, I earned it working and always working with 'the company'. I was able to pay off the barn, the sty, and then there's the house I built and almost everything I own I earned it thanks to this company. It's a partnership I can count on. (P15).

> In the poultry sector, the family farmers that try to stay independent have a lot of difficulties to sustain themselves. They're competing with larger farms and big companies that work with integrated producers. They end up being naturally excluded from the market, they can't compete. (BL2).

These results show that, in spite of the fact that these B-S relationships are initially asymmetrical in terms of power and channel member dependence, there are forms of power that are not only accepted but in fact improve the relationship and make the difference, in so far as smallholders recognize the partnership as inherently good for them and for their growth: such is the case of non-coercive power.

6.5.3. Use of Non-Coercive Power

According to the typology of power usages by French and Raven (1959), there are four types of power that can be categorized as non-coercive – reward, expert, legitimate and referent – which we will use to describe the types of non-coercive power usages observed throughout the field research in the B-S relationship.

6.5.3.1. Reward

Reward is a power resource that describes the ability of one partner of the B-S relationship to offer rewards to the other. Throughout the field research, many different scenarios of the use of the reward power resource by companies were observed, while smallholder farmers did not seem to possess this power resource, simply because the supply chain is coordinated by the focal buyer who communicates production requirements to the suppliers: thus, reward was a strategy used by buyers to incentivize suppliers to respect these requirements. Most companies used incentives and price premiums as a way to encourage producers to comply with quality standards. Price premiums were often described as a “win-win” strategy because they enabled the company to obtain compliance with a specific requirement while allowing producers to raise their standard income. Certain companies, especially those that provided production inputs to their suppliers (such as seeds, fertilizer or animal feed), would distribute bonus compensations to producers who used these inputs efficiently, enabling the producers to gain in productivity and earn more while allowing the company to spend less on inputs.

> One thing that incentivized us to produce better was the quality bonus they paid. In all logic that weighed in. Because if you can earn more by improving quality, why not take advantage of that? (P9).

> We have a policy to reward producers for quality. The producer can earn a few more cents per liter of milk depending on the milk’s level of CBT and CSS[6]. (BM1b)

> I think quality is a very important thing. […] If the price of milk takes into account quality and not just total volume, then the producer will want to produce with better quality. It’s good for the producer, it’s good for the company who buys the milk and it’s good for those who are going to drink it too. (P11).

> We buy and provide the animal feed inputs to our integrated producers. And we calculate the price we pay them based on their efficiency in using these inputs. That is, the more meat they can produce using the same amount of inputs, the higher the price they’ll receive. It’s good for both sides. (BL2).

[6] Indicators of bacteria and fat in the milk

Interviews showed that producers appreciated companies that distributed rewards rather than paying everyone the same regardless of efforts and quality, and that it raised their trust toward the buyer in so far as it appeared to them that the buyer was fair and had their interests in mind.

> I share a tank with my neighbors, […] that way we get paid a little more since we have more volume. But it's a good thing that BL1 differentiates on quality because my neighbors' milk, the quality is a tad lower than mine, so I'd end up getting less when I deserve to be paid more than them. (P10)
>
> This other company paid everyone the same thing on any given week. There was a feeling that it was a little unfair, some producers would say, well 'why am I going to work harder than the others if I'm not going to get paid for it?'. (BL2).

In the case of cooperatives, another form of reward is the redistribution of benefits to the producers who are members of the cooperatives according to their contribution to the cooperative's yearly turnover.

> At the end of the year, the general assembly comes together and we redistribute a part of the annual profit to the producer. The other part is reinvested in the operations of the cooperative. Those producers that produce a lot for us and with higher quality receive more than the smaller ones who will only produce small amounts here and there (BL3).

6.5.3.2. Expert

The expert source of power is the ability of one partner to use expertise or specific knowledge, in the form of advice or training, to improve the other's performance in that area. Expert power for the focal company exists in so far as the smallholders believe the company to have significantly higher knowledge than them on growing practices. As a result, companies can easily implement capacity building programs with specialized technicians and agronomists to train their smallholder suppliers to produce better with higher quality. Capacity building not only enables MNCs to assist their smallholder producers to grow, it is also allows them to monitor their suppliers' practices and ensure compliance with their quality standards and requirements.

> Our experience with capacity building is that producers feel empowered because they are improving and learning. As a result, they become more entrepreneurial, they realize they can have a decent future and they want to grow more, invest and use new technologies. Capacity building gives them the tools to be entrepreneurial and it also increases their motivation and the motivation of their children to keep working in the field. (Ext3)

> We also have technicians and agronomists from the university on the ground all year long training the producers and following up on production practices. We train them and they transfer that knowledge to our producers. They can also suggest to the producers that they use higher performing equipment's, that's how three of our producers decided to acquire a new harvesting machine together. We helped pay for it and they're paying it back over the course of next year. (BM1c).

Moreover, because the majority of smallholder producers believe that these trainings will effectively allow them to grow and see the positive benefits they get from capacity building, they are generally highly receptive to the company's advice and training. The following quotes show that producers respond well to expert power as they see it as an opportunity to learn and improve.

> Their agronomist helps with veterinary issues, gives technical assistance. He orients me whenever I have a problem. […] The relationship I have with him is very good, he gives me good counseling, like a teacher to a student. (P15).

> Like I said, you won't get anywhere by yourself. I think it's good they're offering technical assistance, the producer can learn that way. (P13).

> The technical assistance program is great, without a doubt it helps you grow and be more competitive. If it weren't for that, I'd still be producing ten liters a day like the rest of the people in the region. For sure, it gives me an advantage. (P12).

> The technicians are not difficult to get along with, they're here to help. They don't come around to bother you. They're your friend, they go check out the grange and point out the flaws in how we're running it but they do that so we can do it right and get better at our jobs. They have a checklist and they make sure I'm doing everything the way they taught me to. They want us to earn more money, not lose money. (P15).

On the other hand, smallholders do not consciously have expert power in so far as they have far lower technical background and expertise. However, it was interesting to note that several companies regardless of size claimed to learn from their smallholder producers. This means that there could be a potential for smallholders to capitalize more on this power resource and for the business exchange to be more balanced in terms of this non-coercive source of power.

6.5.3.3. Legitimate

Legitimate power stems from internalized norms and values. The decision-making of one partner can be accepted if the other has internalized the idea, or the norm, that the partner has a legitimate right to influence decisions and that they have an obligation to accept this influence. Many MNCs relied on legitimate power to influence smallholders and impose standards, especially pertaining to environmental or labor legislation.

> Sometimes they come around with new rules we have to abide by, especially concerning stuff like the environment and all that. […] I mean, nobody likes it when there are new rules but you have to do it anyways, you can't say no. (P2)

> The environmental issue is very rigid for us, if you're not up to day with the environmental norms, the industry won't work with you. (P17)

> [I] make sure they're using the right equipment and following all the sanitary measures we ask them to comply with. That's a non-negotiable, washing hands, recycling detritus, all of that. (BM1c).

Certain MNCs also used certification as a tool through which to use legitimate power, by certifying producers within their supply base who complied with a set of rules. One MNC created a "Good farming practices" certification for compliance with environmental and sanitation rules, which pushed farmers to incorporate this set of rules on their farm in order to receive this recognition from the company. This qualifies as legitimate power because producers internalize the fact that if they want to work with an MNC, they must follow a certain set of rules and that it is legitimate for the MNC to require them to respect these rules.

While buyers had legitimate power because of their ability to impose standards and regulations on suppliers, smallholders did not have legitimate influence over buyers, meaning that it was not internalized as a norm in any of the relationships that smallholders could influence decision-making. The only exception to this observation was in the case of cooperatives where smallholders manage the organization and are themselves part of the decision-makers.

6.5.3.4. <u>Referent</u>

Referent power of one partner comes from their attractiveness in the eyes of the other, and the other's identification with the partner and desire to become closely associated with them or to maintain an existing relationship. Both the smallholder and the buyer can capitalize on referent power in the relationship, however it is more of an unconscious construct that naturally fosters trust and mutual commitment rather than an intentionally and strategically used source of power by the partners. For MNCs, referent power comes from their reputation as large corporations that smallholders want to work with. Indeed, for many smallholder farmers, MNCs are source of a certain form of fascination and represent opportunity. One producer compared his relationship with an MNC to a relationship between lovers, illustrating this referent power of the MNC:

> It's like this bond, this courtship where you start to fall in love and, with time, you begin to accept many things of your partner because what's important is being with them. (P8)

For smallholders, it was observed that geographical situation, compliance and will to grow conferred them referent power with the buyer. Geographical situation could increase a smallholder's referent power in the relationship if the smallholder was optimally located compared to the company's logistical organization. For example, the closer a smallholder lived to the company's factory, the lower the cost for the company to collect his produce.

> Yes, geographical situation is important because companies have to go around collecting milk every two days, so the cost of logistics is big in their priorities. Since I'm right in the middle of their collection route, I'm a sure bet for them, they don't want to lose me. (P13).

Compliance also played a role in increasing a smallholder's referent power in so far as the supplier gained a reputation of being a "high quality" producer. The more the supplier demonstrated his ability to comply, the more reliable he appeared in the eyes of the company and gained attractiveness and the more it would want to retain him as a supplier.

> I've always preferred working with larger companies where I can negotiate a good price rather than in cooperatives where I receive less… you see, because the companies know that I have very high quality. In a cooperative where all the producers are represented equally, the price I'd receive would be pulled down because the majority of them don't produce with high quality. But since I have this advantage, I have more bargaining power with larger companies. (P14).

> Interviewer: What is, according to you, the perfect producer, the producer that BM1 does not want to lose?
> Field Representative: the producer that we don't want to lose? I would say it's the ones who live close by and the ones who have high quality. (BM1d)

Finally, smallholders that refused to adapt or that resisted to change and technological transfers had low attractiveness for companies who could not envision growing with them, while smallholders who demonstrated will to grow through an entrepreneurial spirit, motivation to use new production processes and technologies were highly desirable in the eyes of buyers and had therefore significantly higher referent power.

Table 6-5 below illustrates the ways in which these different types of non-coercive powers can be used by the partners in the B-S relationship.

Type of Non-Coercive Power	Distribution and use in the MNC-smallholder relationship	
	MNC	Smallholder
Reward	**Strong** Ex: Price premiums in exchange for higher quality.	**Non-existent**
Expert	**Strong** Training, capacity building, technical assistance and technology transfers from the company to the smallholder	**Weak, with potential to be developed.**
Legitimate	**Strong** Offering certification to smallholders in exchange for compliance with environmental production standards	**Non-existent** **(Exists if the buyer is a cooperative)**
Referent	**Strong** Companies that possess a solid reputation, financial stability and status.	**Moderate** Smallholders that possess a reputation for quality production, high volumes, optimal geographical situation…

Table 6.5. Use of Non Coercive Power in the Buyer-Supplier Relationship

Source: French and Raven, 1959. Table elaborated by the author.

6.5.4. Coercive Power

Coercive power is the ability for one more powerful partner to obtain something from the other weaker partner through the use of coercion rather than will. Coercive power is naturally an ability of the more powerful partner in an asymmetrical relationship. In the case of this research, buyers naturally tended to have the ability to use coercive power while smallholders did not have this option. Coercive power relies on measures such as punishment, threat, force, enforcement of contract clauses and coercive measures of control in the supply chain. While this type of power was much less observed in the field research, several illustrations of coercive power provided evidence that resorting to coercive power often damaged trust in the relationship by directly impacting the producer's sense of pride and perception of fairness. Throughout the field research, six forms of coercive power were identified (but this is not an exhaustive list of all the forms of coercive power that could possibly exist in the B-S relationship): economic penalties, arbitrary price setting, negotiation power, coercive monitoring, threats and legal mechanisms.

Economic penalties were the most frequently used source of coercive power and provided a means for companies to sanction suppliers that did not comply with production rules.

> I'm having an issue at the moment with this producer. We found traces of antibiotics in his milk yesterday, which means that the milk from the entire truck on that collection route was contaminated and lost. It's forbidden to sell milk from a cow that's been given antibiotics. So now the producer has to be penalized, which is not good. He's going to have to reimburse us 1,600 reais for the value of the truckload of milk that we lost because of him. (BM1d).

Arbitrary price-setting was the ability for buyers to impose a lower price on producers without negotiation and that the producer had to begrudgingly accept. Negotiation power was another identified form of coercive power which also follows this idea that the buyer has all of the power in negotiations and that the producer is unable to bargain the price he wants.

> It's often that many companies will agree to pay the producer a price X but at the end of the month they'll pay him Y. (BL1).

> We rarely meet in person to negotiate prices. I am informed of the price they'll pay me for my produce every week when the guy calls me. (P4)

Coercive monitoring is the fact for a company's field supervisor to overstep the producer's property to monitor production practices and the general state of the farm without having agreed upon a visit with the producer. This was a particular source of conflict as producers viewed this as highly disrespectful and abusive.

> Many companies will just come over to the producer's farm without warning and if the producer isn't there, they'll go in with their checklist to control how things are going. It's unfair. If they see something they don't like, the producer isn't there to justify himself. (P3)

Threats are the ability for a buyer to cause the producer to fear repercussions if he doesn't follow the company's requirements, such as threats to revoke a purchasing agreement or to break the relationship. Legal mechanisms are the fact to enforce contractual clauses to impose sanctions or to resort to legal action against a producer, for example if a producer in a contract farming scheme deliberately side-sold his produce to another buyer when it is forbidden by the contract.

Observations from the field showed that the use of coercive power by a buyer directly impacted the smallholder's perception of fairness in the relationship. Because of the smallholder's already weaker position in the relationship compared to the MNC, use of coercive power generally exacerbated the feeling that the MNC was "abusive" in its position of power and had the ability to weaken trust between the MNC and the smallholder and created "win-lose" situations where one partner would dominate the other. However, the question of contracts remained less problematic than other forms of coercive power, as it appeared that contracts had little impact on the level of trust or commitment in the relationship. Some producers refused to work with contracts so as to not be tied to a buyer, while others felt safer being contractually bound to a buyer because it gave them a guarantee of purchase.

6.5.5. "Power Dynamics" in a Transactional vs. Relational Exchange Perspective

Table 6-6 below illustrates the difference between a transactional exchange and a relational exchange on considerations relevant to the category "Power Dynamics".

Transactional Exchange	Relational Exchange
Reliance on heavy-handed power with the objective to create "win-lose" situations	Reliance on non-coercive power with the objective to create "win-win" situations
Adversarial relations based on power struggles	Collaborative relations based on the acceptance of non-coercive power usage
The MNC concentrates the power resources	The smallholder can also capitalize on his own power resources
Asymmetrical dependence of one partner on the other	Interdependence with both partners equally relying on each other

Table 6-6: Power Dynamics: From Transactional to Relational Exchange

Source: Author

6.6. Inter-Organizational Differences

The category of inter-organizational differences refers to the unavoidable differences in business practices between a large multinational corporation and a smallholder farmer supplying that company which can lead to inefficiencies in the overall inter-organizational functioning of the relationship as well as discomfort in inter-personal interactions and emotional responses. The relationship between an MNC and a smallholder farmer cannot be thought in the same terms as a traditional buyer-supplier exchange, as **the rules of "business *not* as usual"** seem to apply. Observations from the field highlighted the strong divide in terms of business manners, value orientation and norms **between the MNCs corporate culture and the smallholder's rural culture**, as well as divergences in terms of discourse and realities between the **MNC's headquarters and its operations on the field**.

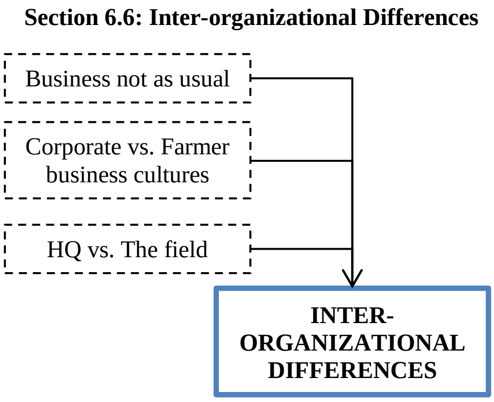


Figure 6.6. Category "Inter-Organizational Differences"

Source: Elaborated by Author

6.6.1. Business Not as Usual

MNCs engaging with smallholder suppliers face the challenge of doing business with an "unusual" business partner. I use this term "unusual" in contrast with the classic saying of "business as usual" which refers to the standard dealings of a transactional exchange. As mentioned in previous sections, the MNC-smallholder relationship must take into account the particularities of both of these contrasting business partners. Moreover, smallholders are an "unusual" business partner for MNCs in the sense that they do not operate along the same lines of commercial and business reasoning, incorporate less managerial processes and commercial customs than their MNC counterparts. For example, as mentioned earlier in this chapter, smallholders place a high priority on interpersonal relationships in the business exchange. One important but underestimated explanation in the failure of the relationship between MNCs and smallholder suppliers is the inability for the two partners to address their inter-organizational differences. Many companies attempt to go about these business relationships as they do with most of their suppliers.

> You know, I've rarely seen companies doing something very innovative here in Brazil; it's more a commercial relationship between buyer and supplier. I've never seen a company that is interested in the necessities of the low income population and of their providers in their supply chains (Ext2).

> We believe that companies need to leverage different competencies and think outside the box to address the many challenges of including smallholders in value chains. Working with smallholders requires putting together many systems such as infrastructure, stocking, information, communication, control and monitoring. There are many "chicken and egg" problems […]. These are not "usual" business partnerships and they require a lot of coordination. (Ext1)

Conducting business with smallholder suppliers thus implies understanding the particularities of the business partner in the first place. The principle difference that MNCs and smallholders face is their respective ways of conducting their business activity, which we will discuss in the next sub-section. Realizing that "business as usual" does not apply in these relationships can help MNCs integrate smallholders in their supply chains in a way that is more responsive to smallholder realities: incorporating these realities, such as the smallholder's low education, lack of access to financial services, lack of knowledge of production technologies, use of informal communication channels and unfamiliarity with bureaucratic and administrative procedures can help both partners overcome their differences and ensure better mutual alignment in doing business together in the long term.

6.6.2. Corporate vs. Farmer Business Cultures

It is undeniable that a cultural gap exists between MNCs and smallholders in their business manners. As mentioned in previous sections, smallholder realities closely impact their way of conducting business: for example, smallholders attach high importance to personal relationships, reject administrative formalities and make little distinction between their professional activity and their personal space because both are so closely intertwined in their day-to-day lives. However, MNCs and their staff work with numerical results, plan objectives and conduct business through well-developed managerial practices that speak little to the producer. Many times, these differences in ways of doing business can lead to tension, misunderstandings and conflicts within the relationship.

> Another problem we have is with the delivery. If you could see the daily routine of our supermarkets… one store receives 10 to 20 thousand products a day, and the smallholder suppliers tend to deliver late, they don't respect a specific date or timing even though we try to plan this with them. And they don't understand that it's part of working with a company as big as ours, so a lot of them protest that we have such a strict planning. They don't really understand this difference between them and the company. (BM3b)

> Yes absolutely, there's a difference in cultures, the producers want to talk with you as if you're family, so when you go there you have to sit down with them and make them feel at ease, you can't just stay standing up with an agenda and a checklist. (BM1d)

Understanding these differences and attempting to bridge the gap can help both partners improve mutual acceptance and reach higher levels of inter-organizational synergy. For example, many farmers have low or non-existent managerial skills and do not know how to run their farm as a business *per se*. Bringing assistance to the farmer that will help him develop a stronger sense of managerial discipline can help bridge that difference.

> Many farmers don't know exactly how much they're selling. They deliver a truckload of vegetables but they don't count or write any of this down. (BM1c)

> Before working with "the company", I didn't keep count of anything, but now I know how much I'm spending and how much I'm earning, and that's how I can grow. (P11)

> We ask producers […] to comply with bookkeeping practices. We teach them to calculate things like return on investment and margins. Some of them are quite reluctant to do that, they're not used to managing their production in such a capitalistic way (BM1d).

> Something that's quite striking is that you see how much affection the small producer has for his animals. He will give them names and consider them with a lot of care. If you go to a commercial farm, you would never see that kind of practice, it's much more pragmatic (Ext 3).

> The guy said 'don't give your cows names, give them numbers'. We've always given them names […] but he said that if we want to manage our herd better we shouldn't be so emotionally attached. (P9).

A cultural difference also appeared very clearly concerning the transfer and use of new technologies or change in production standards and practices. Many farmers are still producing in the same way the two or three previous generations were, and are still very unfamiliar with new requirements in the food industry such as those pertaining to preoccupations with quality, or more modern technological practices used by agribusinesses to improve productivity.

> It is always hard to implement quality norms because the small farmer is generally of an older age or was taught by a previous generation of farmers that production is done "this way" and it is hard to change that culture (BM1c).

> We've encountered a lot of resistance in trying to push quality, most producers don't understand why we ask this of them. They'll say 'milk is milk: it's white'. (BM1b)

> It's a question of culture, the culture of the rural supplier… the more "senior" producers in particular are quite resistant to change. (BM2).

Companies working with these farmers, on the other hand, tend to pressure them to invest in higher performing technologies to improve economies of scale and quality. These companies often encounter resistance when trying to push new production practices or technologies forward because farmers are either reluctant to change or simply do not understand the need to be more productive. In the case of one milk producer for example, the company's field supervisor had to convince him for several months to start using artificial insemination technologies to improve the producer's cow herd instead of relying on natural reproduction which gave poorer results. The producer did not view the issue as a business one and arguments concerning the improvement of productivity resonated little with his own way of reasoning which was based on religious views. As a result, he was very reluctant to give in to this modernization:

> If you ask me, cows get to reproduce once a year. Why take away that one pleasure they get once a year of being with their mate? Besides, I just don't think man should interfere in their reproduction, I believe more in letting things take their natural course. (P8).

It was obvious that the producer and the field representative shared an inconsolable cultural difference due to the way they each viewed their business activity and how it was affected by their respective value-orientations. Resolving these differences is not easy because they are bound to each partner's set of norms, values and priorities, however the producer in the end accepted to use artificial insemination because he was convinced by the previous good results he had obtained from following the company's advice.

6.6.3. Headquarters vs. The Field

Another more surprising *intra*-organizational gap appeared frequently within large companies themselves, namely between an MNC's headquarters and its field operations. While they are less problematic or significant than the cultural differences that exist between the MNC and the smallholder, they remain a barrier in achieving effective mutual alignment in the partnership with the smallholder suppliers. These gaps appeared clearly between the discourse of corporate managers based at the MNCs headquarters who had a more CSR-vision of the company's relationship with smallholders, and the discourse of their field representatives who dealt with day-to-day operations, personally managed the supplier relationships and appeared more distant from matters relating to social impact.

> Interviewer: But is it hard to establish these relationships?
> I don't know, I honestly don't know. I'm not saying that it's difficult, I'm saying that what is important for us is to achieve this good relationship that I'm talking about. But I don't know if it's difficult to achieve or not, perhaps my colleagues on the field would be capable of telling you what the challenges are. For us, on the more corporate side of things, the challenge is to reach… is to have a good relationship with our partners, whoever they are. (BM1a)

> For me, when we talk about creating shared value, it's about: we win together, we lose together. It's about the producer understanding what the factory needs and me understanding what I can do to help the producer to produce better. (BM1c).

> My role as a corporate person within these offices is to ensure that our strategies with these producers are aligned with the global CSR vision which was defined for the 15 countries where BM3 works. I don't know the exact numbers and operational aspects, I'm in charge of structuring our social impact within these supply chains and responding to our global managers. (BM3a).

> Interviewer: Do you have some type of measure to know what your social impact is?
> Field representative: No. When we want to talk about social impact, BM3 looks at individual cases and writes small case studies for CSR reports and things like that. We have internal events every trimester where we also talk about our sustainability strategies and results. But numbers like how have our producers grown or how are their lives better, we don't have anything like that. (BM3b)

Moreover, certain field representatives underlined the difficulty of playing their role as an intermediary between the office and the supplier, and bridging the gap between corporate matters and the realities on the field.

> The factory cares about numbers, quality, charts. It sees the delivered product but not the person or the processes behind it. I know the producers, I'm close to them, but the people at the factory just know the producers by their names and their traceability numbers. It's always difficult when the factory takes a decision that is hard for me to announce to a producer. (BM1c)

> I always have to play two roles: I'm one guy at the office when I'm making my charts and planning the demand cycle and making sure that the factory is getting all of its deliveries, but I have to be another guy when I go visit the producer. I even have to talk differently. For example at the office we talk about how many "milliliters of precipitation" we've had in the past month, but if I go see the producer I'll just say "it's been raining a lot this month hasn't it?". (BM1c)

A stronger alignment between corporate strategies and field realities can soften inter-organizational differences by fostering a stronger sense of understanding on both sides of the partnership. While in reality, these partnerships are conducted between the farmer and the field representative, the poor association of the relationship with the rest of the company that stands behind the field representative inhibits effective mutual alignment in the relationship. In these inclusive business strategies where it is important to focus on the personal side of the business relationship, a strong predicament appears between on the one hand establishing strong personal ties that are based on emotional rationale, as mentioned in **section 6.3**, and on the other hand enhancing performance and results based on business rationale.

6.6.4. "Inter-organizational Differences" in a Transactional vs. Relational Exchange Perspective

Table 6-7 below illustrates the difference between a transactional exchange and a relational exchange on considerations relevant to the category "Inter-organizational Differences".

Transactional Exchange	Relational Exchange
Ignoring inter-organizational differences	Apprehending inter-organizational differences
Resistance to other partner's business culture	Adaptation to other partner's business culture
Business as usual	Business not as usual
Conflict and mutual disagreement	Compromise and mutual alignment
Lack of alignment between corporate strategies and field realities	Alignment between corporate strategies and field realities

Table 6-7: Inter-organizational Differences: From Transactional to Relational Exchange

Source: Author

6.7.Partnership Orientation

The category of Partnership Orientation encompasses several notions related to the idea that the MNC and the smallholder work as partners in the B-S relationship. This entails developing **a long-term vision of the relationship** as well as **embracing common goals and values**. Moreover, setting up **governance mechanisms** in the partnership is essential to reduce asymmetries, develop a sense of working as equals and provide a space for joint decision making. Finally, companies that offer **services** in addition to the purely transactional aspects of the relationship such as access to credit or capacity building make the difference compared to other buyers, and are more able to sustainably retain suppliers.

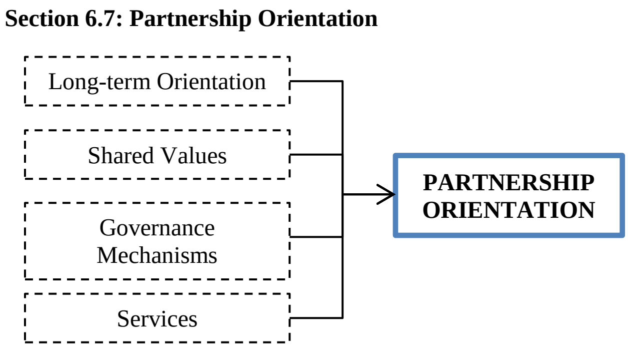


Figure 6.7. Category "Partnership Orientation"

Source: Elaborated by Author

6.7.1. Long-Term Vision

Developing a long-term orientation between buyer and supplier is an essential component of the partnership in order to generate a form of commitment. Indeed, the most committed smallholders interviewed during the field research were those that had a long-standing historical relationship with the company.

> I was one of their first suppliers when they installed a factory in the region thirty years ago. BM1 and I we have a long history, I've been carrying their flag for years. (P8).

> We've been working with 'the company' for 20 years. Everything we are and have today it's thanks to this partnership with them (P15).

Moreover, smallholders are very receptive to signs of a company's long-term engagement as it warrants security for them and reinforces mutual commitment in the relationship. In contrast, in cases where MNCs explicitly refuse to demonstrate this long-term engagement, smallholder satisfaction in the relationship was observed to be lower, which threatens the overall sustainability of the B-S exchange.

> When 'the company' took over 'the other's' operations, it signed on for ten years. They are increasing production and constantly recruiting new suppliers. Producers in the region obviously see this as a sign that 'the company' has come here to stay and that makes them feel confident about working with 'the company'. (Ext4).

> Today they only represent 5-10% of what we're selling, and the quantities vary every week, so does the price. There's nothing that says 'we're going to work in this manner the entire year round'. If they came and told us they wanted to sign a contract where we can work like partners and we sell exclusively to them, it'd be so much better for us. (P5).

This is important because one aspect which is often neglected on the subject of sourcing from smallholders is that many smallholder producers do not have a long-term vision for themselves as producers. Because of difficult living conditions, unstable livelihoods or market instabilities, many producers are either tempted to leave the field for a higher paid employment opportunity in the city, or to leave the agricultural sector they are in for a better remunerated sector, such as soy or sugar cane. Motivation to remain in the field is not a given, which is why companies need to give special attention to this point. Producers outlined that companies had a role to play in helping maintain this motivation.

> Companies have a role to play in supporting Brazil's family agriculture. When they buy from family agriculture, they're giving an incentive to small producers and to their children. (P5).

> We were starting to believe less and less in the local buyers we were working with, we were even considering to stop producing altogether because these little companies don't give you incentives for anything. But today I say working with BM1 has been the best thing that ever happened to us, it renewed our motivation in what we do (P7).

> I was leaving the profession but this new partnership with BM1 was a huge push, it woke me up and motivated me to keep going forward. (P8).

Consequently, one of the first steps to strengthen a B-S partnership is to incentivize the producer's continuity in the field through a long-term orientation. Many smallholders are not certain to continue producing in one year's time or even one month. Without this motivation, there can be no partnership orientation. As a result, what fosters partnership commitment is the fact that a farmer is capable of envisioning himself in his production activity in the future with a positive outlook.

> There isn't an expiration date. When I work with these producers, I imagine relationships that will last 20-30 years down the road. Our objective with all of our suppliers is to keep them, not to renew them. (BM1c).

> Producers that are part of our technical assistance program are much more faithful to the company than those who are not. They see that the technical assistance is helping them grow, that they are earning more money, and this makes them want to grow even more. And since they rely on us to continue growing, they imagine their future working with us. (BM1d)

Motivation is not only relevant to the farmer but also to his offspring. Family farms have survived over decades because the future generations generally take on after their parents on the farm. Today, the newer generations have more options to study in the city and choose another career path, and most of them are not motivated to continue after their parents because of the difficulties and challenges of smallholder production compared to urban livelihoods. As a result, the survival of smallholder production is at stake with the choices that these new generations make, and companies can play an active role in ensuring their motivation and continuity. Certain companies understand this and have implemented strategies and projects to ensure that the relationship they manage with their suppliers also reaches their suppliers' children.

> You have a very low schooling index among these rural farmers. […] Their children, on the other hand, they have a little bit more years of schooling, but they are not interested in staying in the field. They can be very interested in working in the agricultural area if they have a technical training. (Ext2)

> The question of the next generations is very present in our minds. We have undertaken an entire project to create a form of dialogue with our suppliers' children and value the work of family farms in their eyes. (BM1a)

> Our experience has shown that, because these smallholder suppliers are seeing their income level increase by being part of this program, progressively their children who were not interested in participating in the production activity are now slowly making their way back to the farm, because they see that they can actually have a good life as a producer. One of our producer's sons who had left to work in the city, returned to the farm and is now working there because he saw how well she was doing since she entered our supplier program. (BM3a).

6.7.2. Shared Values

The idea of shared values encompass a wide array of categories that emerged from the research and which conveyed the idea that the buyer and the supplier define and recognize a form of inter-organizational culture that governs the partnership. In RM theory, shared values correspond to norms in a business relationship according to which the business partners share an inherent and mutual understanding of what is "right" and what is "wrong" in their alliance. These shared values in the B-S relationship are fostered by a mutual desire of association. In interviews, this idea of shared values between partners was often conveyed through the expression of "investing in the relationship", as illustrated in the following quotes.

> Everything we try to do within our supply chains to develop the producers is an investment. We invest in these relationships because they are good for us, and it will enable the producer to improve and supply us better in the future. (BM1a).

> The majority of the work that we've been doing to improve our supplier relationships is not something that can be done overnight. It takes time, it's an investment on the company's part - that will produce positive impacts over the long-term. But it takes time to gain the producer's trust and get him to adhere to our principles. (BL1).

These shared values also extend to the notion of growing together. This means that, through shared values, the partnership "makes sense" in the eyes of both partners to attain their long-term individual objectives, or in other words, that they see the other partner as essential to their future success and growth. In many interviews, both with managers and smallholder farmers, the notion of "win-win partnerships" appeared as a shared value through which both parties create mutually beneficial impacts and grow together through their association.

> The relationship needs to be financially healthy from both perspectives, both sides need to win something out of it. (BM3a).

> We're not enemies, you understand? Vertical integration is a relationship between partners, not adversaries. If I'm doing well, the company is doing well. We work together with this concern of growing together. (P15).

> When we invest in these relationships, the goal is to create win-win partnerships with our producers. The producer will get benefits from working with us and we will get benefits from working with him. The idea is to create a form of shared value for both sides. (BM3a).

> We always seek that tomorrow be better than the present, and we hope that the buyer will help us with that just as we help them, that we go in the same direction together. It's important that we both do well. (P14).

Shared values are also linked to partner solidarity, in the sense that buyer and supplier accompany each other through difficulties thanks to their association and because they have a vested interest in not only safeguarding the partnership from failure but also ensuring that their partner is doing well. This is illustrated by the idea that when one partner in the relationship is doing well, the other also benefits from this and on the contrary, if one partner undergoes hardships, the other will support the partner to overcome them.

> If the producer has difficulties, it's also our role to try to understand what is happening and not go look for another supplier. We expect the same from them: when the company has a decrease in demand and needs to adjust its forecasts by asking producers to reduce their production, they have to be able to understand that and respond to the situation as our partners. (BM1c)

> Interviewer: What makes the difference between BM1 and the other local buyer who offered to pay you more?
> Producer: The level of respect and loyalty they have towards us. Anytime I need something I can just say it and they're open to hearing me out and helping in any way they can. That is what I call a real partnership (P8).

> There are times of the year when we're a little tight financially and BM1 helps us obtain a credit, they help us buy inputs free of interests. Even if it's not always a lot, it helps us out. (P9).

> This company they've always had my back. There was even a time when we weren't doing so well and we wanted to sell some assets. The supervisor at that time came over to our house and said 'don't worry', he found a way to obtain financing for us, he didn't let us down. I've always received incredible support all my life from them through the good and the bad. (P8).

In this category of creating shared values, what becomes apparent is that the more partners invest in the relationship, the higher the cost of terminating it. The shared value of partnership solidarity is also a direct manifestation of the high cost of exiting the relationship: it shows that when a partner is in difficulties, it would be more costly to abandon the relationship than to remain in it in spite of the partner's economic slump.

6.7.3. Governance Mechanisms

Few companies implement governance mechanisms to manage their relationship with their smallholder suppliers aside from contracts, although as explained in **section 6.4**, this is more a coercive form of power to ensure security, compliance and loyalty on the part of the supplier than an actual mechanism to help the relationship evolve within a precise governance framework of joint decision-making. Governance mechanisms comprise channels and spaces for joint decision-making, partner dialogue and the representation of stakeholder interests. While there were little examples of governance mechanisms throughout the field research, it is mentioned as an important category in the results because, first of all, many producers aspire towards participating more actively in the management of the relationship and second of all, cooperatives have developed strong forms of governance in the B-S relationship from which MNCs can learn.

On the one hand, many producers aspire to take a more active role in the partnership, and especially in decision-making processes. Producers working contractually with an MNC acknowledged that they had little independence on their own farm and little opportunities to participate in decision-making processes, since their partner company planned everything from quantities to production techniques to the date the product would be collected on. This lack of autonomy for the farmer can create an imbalance in the relationship and be detrimental to the feeling of "being partners".

> If I want to grow or produce more, 'the company' has to approve first. (P16)
>
> For sure, the technicians have to agree with how I work and how I take care of the animals. (P15)
>
> I think they should hold more meetings with the producer, let us know how things are going, at least it would give us some incentive […] the relationship should work more like a union between us and the buyer. (P12).

On the other hand, it was observed that farmer cooperatives implement governance practices that involve the producer in decision-making and that insightful companies could easily replicate or adapt to improve governance of their own relationships with smallholders. Two local buyers who were structured as cooperatives were interviewed during the research, and their managers insisted on the importance of including the farmer in the management of the organization. Moreover, an important observation that emerged is that the implementation of democratic governance procedures in cooperatives made the use of contracts irrelevant to ensure producer loyalty.

> The producer is at the core of our purpose, he is the reason why we exist. We have a commercial activity but our main focus is to empower the small producer. Since our creation, that has been our objective. (BL3).

> We don't use contracts, it would add confusion more than anything. Our principle is to let the producer use his free will. I think it makes much more sense to manage the organization with democratic processes: free entry and free exit. Being faithful to the cooperative is up to the producer. (BL3)

Governance mechanisms within cooperatives include the ability for farmers to participate in decision-making and management procedures in the organization through meetings and general assemblies, for example to decide on budget allocation or the redistribution of annual profits, as well as the election of farmer representatives in the management board of the cooperative. Moreover, because cooperatives are small structures that are generally close to the farmer's culture and environment, producers feel they have more easy access to the cooperative's managers and the ability to voice their concerns and questions.

> Once a year we hold a general assembly where the cooperative's members gather and we present them the financial statements of the organization. The producers get to decide by vote on how the profits will be redistributed to them and reinvested in the cooperative. (BL3).

> We believe that the cooperative system is a much better instrument to work with family agriculture. The family farmer identifies better with cooperatives than with private companies. He's linked to our management body and directors, our community, our history, our syndicates. I think cooperativism is much more efficient to empower family agriculture. (BL2).

> We're a small group and we function like a community. Everyone knows everyone, we live close to one another, and this is transmitted from generation to generation, we go to the same church, we're from the same towns, this helps a lot in fostering loyalty. (BL3).

> When you're integrated inside a cooperative, it's easier because you can sit down with them whenever you want and question their way of doing things, talk about how things are evolving. With a large company, you can't do that. (P18).

The existence of strong partnership governance mechanisms in cooperatives that ensure the buyer's accountability towards the producer is precisely what makes one of their strengths, in so far as it enables them to not only nurture the producer's trust but also foster mutual commitment. Companies also recognized the importance of being accountable to the smallholder supplier, however they lack formal instruments to effectively ensure uniform accountability in the relationship.

> Large companies could learn from the way we work. For example, in our case, at the assembly at the end of the year, we redistribute benefits to the producers. They won't hold a meeting with the producers to do that, that won't happen, but they can find a way to share immediate returns with the producers that contribute the most every month in the form of income. Also, they give little technical assistance, and the producers can't afford to hire private external assistance to grow. Our cooperative has instruments to give technical assistance at practically zero cost. (BL3)

6.7.4. Services

As entering a partnership implies the idea of growing together, companies that bring services to their suppliers often make the difference: indeed, these added services are a way for the company to bring special attention to the needs of the smallholder and differentiate the relationship from a purely transactional exchange, thus enhancing partnership orientation. In many interviews, companies did not hide the fact that these services were strategically offered to strengthen producer loyalty. As mentioned in previous sections, technical assistance is particularly relevant to help the smallholder grow while allowing for the company to secure a more reliable supply with better quality.

> One of our core strategies, it's a department on its own within the company, is to bring farmer services to the producer. We segregate these services according to the size of the producer: the one that produces thousands of liters of milk a day doesn't have the same needs as the smaller one who collects less than 50L a day. And within these farmer services, we have a training program which is very responsive to the needs of that smallholder, with the objective to help him grow from 50 to 200L. (BM1b)

Services such as enabling access to credit, providing technical assistance and facilitating the purchase of inputs act as signals of commitment from the company towards the producer. When a company invests time and resources to bring services to its smallholder suppliers, the suppliers return this commitment towards the company through higher goodwill, loyalty, compliance and a stronger desire to grow. The feeling of gratitude, while difficult to measure is all the same very powerful in ensuring the success of the partnership and the supplier's commitment towards the company. If a producer is grateful towards the partner company for the services and assistance it provides, he will likely feel indebted towards the company, thus fostering a form of "moral commitment".

> When we think of the advantages we get from working with this company… for example, the supervisor signs for us if we need a loan from the bank to give the bank a type of guarantee, I

> don't know any other company who would do that for us. Everything we've built it's thanks to them. (P9).

Moreover, in B-S relationships that were more commercially-oriented and where companies did not bring these services, especially technical assistance, producers were more discontent with the buyer and could not identify how the B-S relationship helped them grow in a significant way. In the two following quotes, both producers worked with a multinational supermarket chain that did not offer any types of services or technical assistance. They underlined the challenge for small producers like themselves to hire technical assistance if they wanted to improve, whereas in almost all the other cases that were looked at of smallholders working with MNCs (within and outside of the field research, especially through secondary data), technical assistance was a service included in the partnership and financed by the MNC itself to help the producer improve. It clearly appeared that the relationship of these two producers with the MNC was on the transactional side and that they struggled more to grow than other interviewed producers who received free technical assistance from their buyer.

> Interviewer: Do you receive technical assistance?
> Producer: Yes, but not from the company. We hired an agronomist in the small farmer cooperative we formed and he comes once a week to help us out. […] We all pay for him. (P5).

> Interviewer: Do you think they should offer technical assistance?
> Producer: I think they should. They have much more easy access to technologies and knowledge than we do and they could pass that along to the producer. (P5)

> Interviewer: What has changed in your life since you started working with this company? How have you grown?
> Producer: For me personally, not much has changed. As a group we hope to strengthen our cooperative, but on an individual level, nothing really. (P4)

This illustrates the importance of bringing services to add value to the partnership and help suppliers tackle the difficulties they face that hinder their growth.

6.7.5. "Partnership Orientation" in a Transactional vs. Relational Exchange Perspective

Table 6-8 below illustrates the difference between a transactional exchange and a relational exchange on considerations relevant to the category "Partnership Orientation".

Transactional Exchange	Relational Exchange
Short-term orientation of the relationship	Willingness to sustain the relationship over the long-term
Low investment in the partnership and low cost of terminating the relationship	High investment in the partnership and high cost of terminating the relationship
Absence of partnership governance	Existence of governance mechanisms for joint decision-making
Disloyalty and opportunism	Partner solidarity
Focus on the terms of the business exchange only, without additional services	The MNC provides services to enhance the added-value of the relationship

Table 6-8: Partnership Orientation: From Transactional to Relational Exchange

Source: Author

6.8.Conclusion of Analysis

To summarize the points mentioned in this chapter on the results of the field research, several "bullet point lessons" can be drawn:

- Income and compliance, as components of partner security, are the first, primal aspects of the business exchange. It means securing a reliable source of income for smallholders and obtaining reliable compliance with production standards for companies.
- Interpersonal Relationships play a central part in the development and sustainability of the B-S relationship, and the particular role of the buyer's field staff was highlighted. Local buyers also appeared to have an advantage compared to MNCs to develop interpersonal relationships with the producers.
- Advantages of working with MNCs as stated by producers were that they were financially solid, worked with clear and transparent pricing policies, offered technical assistance and worked with a longer-term vision than local buyers. The principal inconvenients of working with MNCs were that they were more distant and unavailable, that they were very demanding in terms of production standards and required a high level of investments on the producer's part.
- Both MNCs and local buyers had the ability to use coercive power with smallholders, but they did not systematically resort to it. Non-coercive measures relying on reward, expert, legitimate and referent power were a much more effective way to engage with smallholders, generate motivation and commitment

and reduce overall asymmetries in the B-S relationship, especially when the producer capitalizes on his own sources of non-coercive power.

- Because of high inter-organizational differences in terms of business culture and value orientation, it is essential for both the buyer and the producer to address their differences and learn to work around them for the long-term success of the B-S relationship.
- Investing in the relationship and establishing a sense of "working as partners" makes a difference in so far as it fosters shared values, mutual commitment, however few buyers focus their attention on actually creating these shared values or bringing services to add value to the relationship.

7. A SUBSTANTIVE THEORY FOR SUCCESSFUL BUYER-SUPPLIER RELATIONSHIPS IN INCLUSIVE BUSINESS TARGETTING SMALLHOLDER AGRICULTURE

7.1.Introduction

This chapter aims at presenting the substantive theory that emerged from the data. The identification of the categories associated with a successful B-S relationship in inclusive business targeting smallholder agriculture resulted from the process of data collection, coding and constant comparison presented in **Chapter 4**. The methodology of axial coding narrowed the results of the research to the six higher-level explanatory categories presented in **Chapter 6** and in **Appendix 5**. These categories explained the principal themes that recurred throughout the research. The connections between those categories and themes form the proposed theoretical model presented in this chapter, which revolves around the four central categories that emerged from selective coding, namely "perception of fairness", "trust", "interdependence" and "commitment" presented in **Appendix 5**. This chapter aims to explain which processes and strategies in the B-S relationship lead to the flow from an initial situation of distrust and power asymmetries between the partners to trust and commitment in the relationship. Within the framework of this substantive theory, one central higher-level category was identified through selective coding and appeared to explain how a successful relationship between a firm and a smallholder supplier can effectively be built, which I will refer to as the "central phenomenon": Interdependence.

How did this theory emerge? The first series of interviews conducted in this research were with key external informants. These external informants were professors, consultants and experts on the topics of agriculture in Brazil and of multinational companies working with family agriculture. The purpose of these interviews was 1) to raise the most important questions on this type of B-S relationship and 2) to lay out the first markers through which these relationships would be analyzed in subsequent interviews with buyers and smallholder producers. The underlying research question from the beginning was to identify the factors that enable these two asymmetrical partners, namely MNCs and low-income smallholder suppliers, to build long-term and mutually beneficial business relationships. It was also assumed from the beginning that the relationships between the buyers and smallholders in our sample were not one-time transactions but repeated transactions that did not have an expiration date.

The most important theme that emerged from these external informant interviews was the need for security, or more precisely the existence of insecurity in the relationship. Both partners feared they would at one point or another be deceived by the other. Because of these insecurities regarding one another's integrity and reliability in the relationship, both partners initially felt distrust at the idea of doing business together. Hence, overcoming these insecurities naturally meant that the partners needed to find a way to create trust between them. This is how building trust appeared to be the first step in these B-S relationships. With this intuition, I turned to RM theory presented in the literature review in **Chapter 3**, which gave me the basic framework on which the substantive theory has been constructed. RM theory not only insists on the importance of trust in the business relationship but also commitment, which is an element I consequently looked for and incorporated into my research inquiry in subsequent interviews, and which became an essential category of the theory, as it will be discussed further.

RM theory also highlighted other important elements which were, all the same, added into the grid through which I analyzed the collected data and which have been presented in **Chapter 3**, such as the distinction between transactional and relational exchanges, the use of power in marketing channels and the concepts of justice and perception of fairness. Equipped with these different theoretical contributions from the early steps of the analytical process, I returned to the field with several questions in mind:

- What explains trust and commitment in the relationship, or lack thereof, and what role do they play in the success of the business relationship between the MNC and the smallholder supplier?
- To what extent do MNCs use power and influence with smallholder suppliers and how does this affect the smallholder's engagement in the relationship in the long term?
- Why do some relationships between buyers and smallholders work and others don't?

Many times throughout the research I felt I was at an impasse, faced with conflicting statements and situations. The data that emerged from the interviews was far from harmonious or linear. On the contrary it did not give any unilateral answer to the above questions. For example, what could explain that certain smallholders claimed they preferred working with large firms while others said they would never sell to an MNC and were more comfortable working with local players? Or why was it that certain smallholders were loyal to their buyer despite the fact that they could not negotiate a higher price while others were always on the lookout for a better offer? These conflicting observations led me to take into account the "specifics" of each situation, or in other words, the contextual elements. Looking at context posed certain challenges, in the sense that context adds "noise" to the sample. Instead of considering all smallholders equal, I separated them into sectors. It appeared that producers in the milk sector did not have the same challenges as producers that grew vegetables; it also appeared that industry structure (players, competition, demand, market fluctuations, etc.) had considerable repercussions on elements such as negotiation power and the way buyer and supplier worked together. For example, while the majority of poultry producers were vertically integrated in a company's supply chain through contract farming schemes, the volatility of the milk market pushed milk producers to refuse to be tied to a specific buyer with a contract. B-S relationships in the milk sector thus had much more trouble establishing long term linkages than those in the poultry and swine raising sector. Even local culture played a role: in the region of Rio Grande do Sul in the South of Brazil where the population is of German origin, traits of German culture were very perceptible in the personalities of the interviewed farmers who valued dedication, hard work, stability and loyalty in much higher proportions than the rest of the farmers interviewed in other regions of Brazil.

Having isolated the contextual elements that could explain differences in the results of the interviews, it became easier to identify the common points across the interviews which opened up the process of theory construction. From that point, certain recurring observations on the field and in the interviews eventually led to category saturation and to the formation of the substantive theory. These recurring observations, which we will develop in this section thereafter, were that:

- Trust and commitment were not simultaneously-built components of the relationship, and in fact, it appeared that trust was a necessary component prior to commitment. Contrary to what RM posits where trust and commitment are mediating variables between relational antecedents and outcomes placed on the same level, in this research trust appeared to precede commitment in the relationship. We will explain this with more detail later on in this section.

- The use of power did not necessarily have a negative impact on the relationship: what appeared to matter was the type of power used (non-coercive), the buyer's ability to apprehend the weaker partner's perception of fairness and the ability for both partners to capitalize on their own power resources, therefore reducing power asymmetry. Moreover, the use of coercive power could potentially affect the construction of trust but did not necessarily make a difference in commitment, which will be explained further in **section 7.4**.
- Commitment did not automatically result from the existence of trust. Another step appeared necessary in the relationship to "make the difference" between the step of building trust and that of reaching commitment, which is the construction and acknowledgement of partner interdependence.
- A clear distinction appeared between partner loyalty and partner commitment: while loyalty meant that the partners were not actively seeking other exchange possibilities, it did not safeguard them from exiting the relationship should a better opportunity present itself. Partner commitment, on the other hand, is what I define in the framework of this specific research and of these particular B-S relationships as the fact that no other exchange alternative can convince the partners to leave the relationship.

7.2. The Proposed Theoretic Model

Through the use of the paradigm model (Strauss & Corbin, 1990) during the analysis of the data and axial coding, I identified relationships between the identified categories and concepts by classifying them into elements of context, conditions, strategies, consequences and identifying the "central phenomenon". Explanations on how the paradigm model was used in this research to construct the theory can be found in **Chapter 4, section 4.5**. This initial classification facilitated the emergence of theory. With the use of the paradigm model, I identified:

- The central phenomenon of the research, namely the development of "interdependence" between the buyer and the smallholder who are initially asymmetrical partners.

- Categories that describe the "conditions" in which the central phenomenon occurs, such as the buyer-supplier asymmetry and dependence of a weaker partner on the other, smallholder realities (lack of education, lack of infrastructure, lack of access to markets) and the inter-organizational differences between the two partners
- Categories that pertain to the context of the central phenomenon: the lack of trust and security between the buyer and the supplier, the smallholder's perception of fairness in the relationship, the use of coercive power by the buyer.
- Categories that pertain to strategies of the actors around the central phenomenon: ensuring partner security, developing interpersonal relationships, using non-coercive power and fostering mutual alignment.
- Categories that pertain to the consequences of these strategies, namely trust, commitment.

The theory that emerged from this analysis did not aim to generate a visual representation of this paradigm model. Rather, the classification of these concepts into conditions, context, strategies and consequences helps to understand the underlying dynamics of the theory. The categories identified in axial coding and presented in Chapter 6 were grouped into higher-level concepts that were then used to form the substantive theory. **Figure 7-1** below shows how concepts were built from categories.

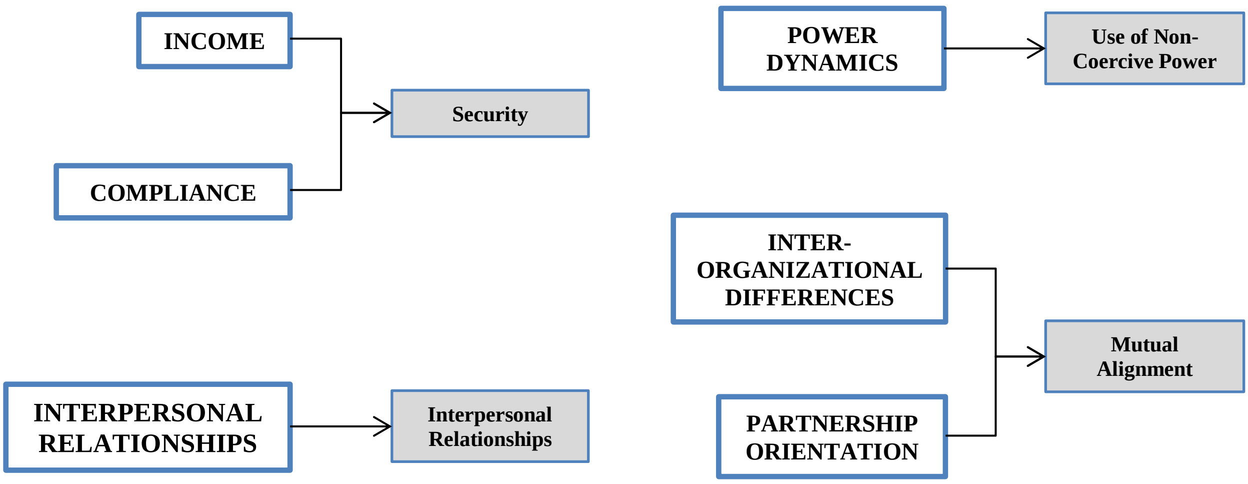


Figure 7.1. Concepts for Substantive Theory

Source: Elaborated by Author

Figure 7-2 below illustrates the proposed substantive theory.

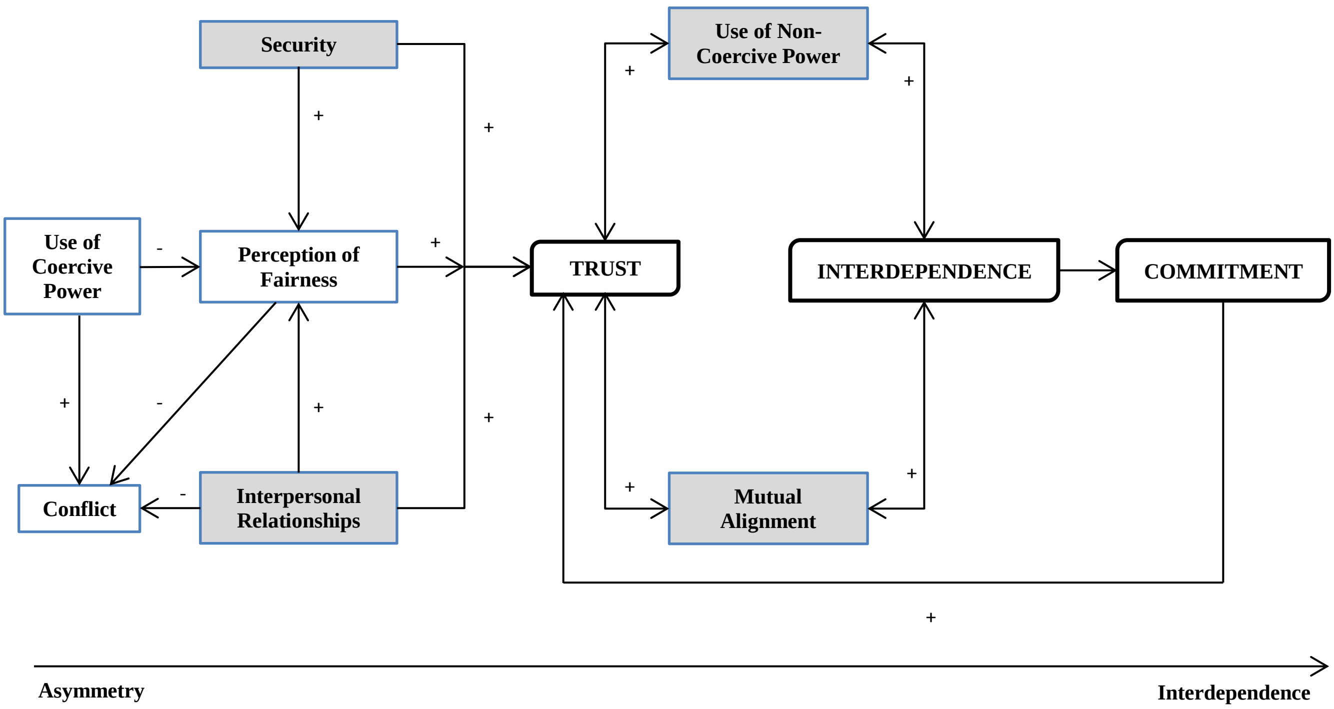


Figure 7-2: A Substantive Theory for Successful Buyer-Supplier Relationships in Inclusive Business Targeting Smallholder Agriculture.

Source: Author

The proposed substantive theory of this research revolves around the central phenomenon of building B-S interdependence in a business relationship between a buyer and a smallholder who start out as asymmetrical business partners. The central phenomenon of interdependence is an ongoing process, a construction, rather than a single event that occurs at a given moment of the relationship. It is also an indispensable element to the development of relationship commitment. The theoretic model identifies two steps that explain the successful flow from partner asymmetry to partner interdependence, which are the building of trust and of commitment in the relationship between the buyer and the smallholder supplier: in step 1, ensuring partner **security** and developing **interpersonal relationships** are two strategies that enable the partners to build **trust**, which is the first necessary component of a successful relationship and what we can call a "qualifying" factor in the relationship. The trust-building process is reinforced by the smallholder's **perception of fairness** in the relationship, and can eventually be negatively impacted by the use of **coercive power** which has a negative impact on perception of fairness. While trust can create some form of partner loyalty, it is not enough to ensure partner retention and to safeguard the relationship from dissolution. In step 2, establishing strategies based on the **use of non-coercive power** and **mutual alignment** enable the partners to foster **commitment** between them through the development of **partner interdependence**, all the while strengthening the already existing trust. Interdependence is what "makes the difference" between these two steps of trust and commitment. Indeed, trust does not lead automatically to partner commitment through time: the buyer and the supplier need to design and implement specific strategies that will allow them to become interdependent, meaning that they equally depend and rely on each other for continued performance and have developed synergetic goals. Commitment, which we will distinguish from loyalty as the fact that no alternative business opportunity can incentivize the partners to exit the relationship, is only reached when interdependence exists between the two partners, thus softening their initial asymmetries. In this sense, interdependence can be considered a "winning" factor in the B-S relationship. **Commitment** is the final "consequence" of the partners' strategies and is the outcome variable of the model of a successful relationship between a buyer and a smallholder supplier in inclusive business initiatives.

7.3. Step 1: Building Trust

Trust was identified as one of the higher-level explanatory categories in explaining the success of B-S relationships in inclusive business targeting smallholder agriculture. Trust is the result of two strategies of the buyer and the supplier: **ensuring partner security** and **developing interpersonal relationships**. It is also influenced by the smallholder's **perception of fairness**, which is a relevant socio-psychological construct and must be taken into account at the beginning of the relationship where both partners are asymmetrical. This section will start by detailing the two strategies, and explaining their impact on perception of fairness, as well as explain the role of the use of coercive power in this first stage of the relationship. Then we will see how the interrelation of security and interpersonal relationships shape the trust-building process. Finally, we will explain why trust is an antecedent of commitment and only a first step in the relationship model, and why we can define it as a "qualifying" factor.

7.3.1. Security

This category of "security" encompasses the two insecurities explained in **Chapter 6** of income for smallholders and compliance for MNCs. These two themes were grouped under the strategy of “security”, meaning the fact for each partner to ensure the other’s feeling of security in the relationship. This category is very close to the notion of “economic satisfaction” that the two partners obtain in the relationship, which is an important aspect of the relationship’s value in the eyes of the partners as seen in the literature review. As explained, the most important theme that emerged from the initial interviews was the need for security in the relationship. Both sides of the relationship feared they would at one point or another be deceived by the other: MNCs feared being deceived by smallholders on the issue of compliance with production standards (quality, volumes, legal and environmental standards, etc.) while farmers were first and foremost concerned with securing a fair and transparent income.

These fears revealed the main preoccupations of each stakeholder of the B-S relationship: buyers are naturally preoccupied with ensuring that their suppliers are aligned with their production requirements, while low-income farmers are primarily concerned with securing an income from the organization to whom they sell to. These preoccupations were enhanced by the fact that these two business partners are asymmetrical in terms of resources, knowledge and, most importantly, their ability to use power and influence in the business exchange. Smallholder farmers, in particular, appeared to fear that their ability to negotiate with MNCs could be undermined because of the power status of MNCs compared to them. This initial asymmetry explains that their perception of fairness in the relationship from the first stages on is crucial to understand and apprehend the trust-building process.

Moreover, asymmetries between smallholders and MNCs also explained the existence of strong insecurities in their business relationship. For example, had the agribusiness MNC been working with a “usual” business supplier such as a commercial farm with improved production practices, it might not have felt this insecurity regarding compliance. In other words, if these partners were to overcome the insecurity barrier, they would have to engage with each other in such a way that was not their traditional way to proceed in their usual business dealings. For example, smallholders would have to be willing to comply to business standards that are not usual for them in their regular production activity, while MNCs would have to think outside of traditional business paradigms to be attentive to their smallholder partner’s perception of fairness and use interpersonal skills as a relationship management strategy. Because of these insecurities, both partners initially feel distrust at the idea of doing business with one another.

Hence, overcoming these insecurities naturally means that the partners need to create trust between them through strategies that ensure partner security. Indeed, as shown in **Figure 7-3**, trust is a function of security.

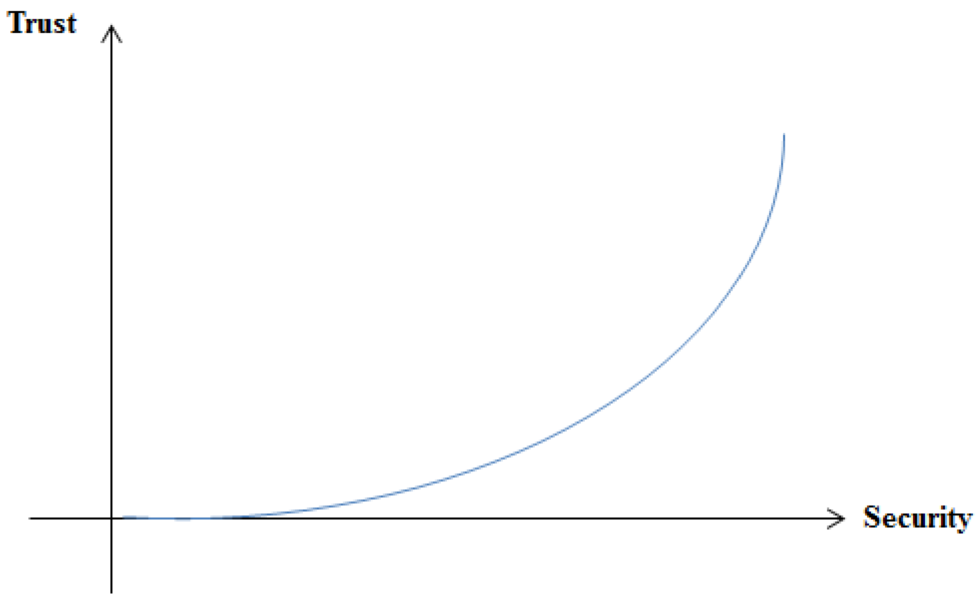


Figure 7-3. Trust as a Function of Security in the Buyer-Supplier Relationship

Source: Author

Figure 7-3 shows that the higher the level of security in the relationship, the higher the level of trust. However, this correlation is not linear. Indeed, the observations that emerged from the field were that an initial increase of security in the relationship weakly impacted the level of trust between the partners, and that the correlation between security and trust in the relationship observed a rule of increasing marginal progression, meaning that each additional improvement in the level of security in the relationship raised the level of trust in higher proportions than the previous. In other terms, trust is a component of the relationship that is increasingly reinforced through efforts from both partners over time.

How can this be explained? First of all, because both partners start out with an initial feeling of distrust and wariness, trust is a process that is constructed over time. In fact, trust is by definition built progressively through the accumulation of signs of goodwill on the part of both partners. Hence, because a smallholder demonstrates compliance on the first month of the business relationship with the company does not mean that the company will immediately trust the supplier. If, however, the smallholder shows a consistent level of compliance over the next production cycles, the company will progressively feel appeased in its fears that the supplier may fail to comply. Similarly, the supplier will trust a company after substantial evidence of receiving a fair and transparent income every month according to his expectations. In other words, trust is built because the partners prove their reliability to each other, which explains the slow progression curb in the correlation between trust and security.

Second of all, because trust is a volatile and fragile construct, a very small decrease in security when trust is high can dramatically decrease the level of trust between the partners as shown in the curb in **Figure 7.3**. It will take many months of consistent payments for a company to gain a smallholder's trust, but only one missed payment when trust is high for the level of trust to break and fall very low. As demonstrated in **Chapter 6, section 6.2, sub-section 6.2.2**, even after 18 years of working with a buyer, a smallholder decided to exit the relationship because income security with the buyer suddenly dropped due to missed payments and the smallholder did not trust them to be a reliable business partner anymore. Similarly, it was observed that it took only one error in production on a producer's part to lose the trust of a company.

Because at this stage of the relationship, the two partners are in highly asymmetrical positions in terms of resources, economic standing and their ability to use power, the weaker partner's (namely, the smallholder supplier's) perception of fairness is important to take into account. It was observed that perception of fairness plays an important role in the first stage of the relationship where trust is being built and where partners have not yet reduced their asymmetries to become more interdependent. As covered in the literature review, perception of fairness is composed of four dimensions of justice (Hornibrook et al., 2009): distributive, procedural, informational and interpersonal. **Figure 7.4** illustrates how the identified properties of the farmer's security impact these dimensions of his perception of fairness.

However, when placing the concept of trust under analysis with the elements that came out of the interviews, it appeared that security was not the only property of the trust-building process between the partners. Another strategy emerged pertaining to the construction of trust in the business relationship: interpersonal relationships.

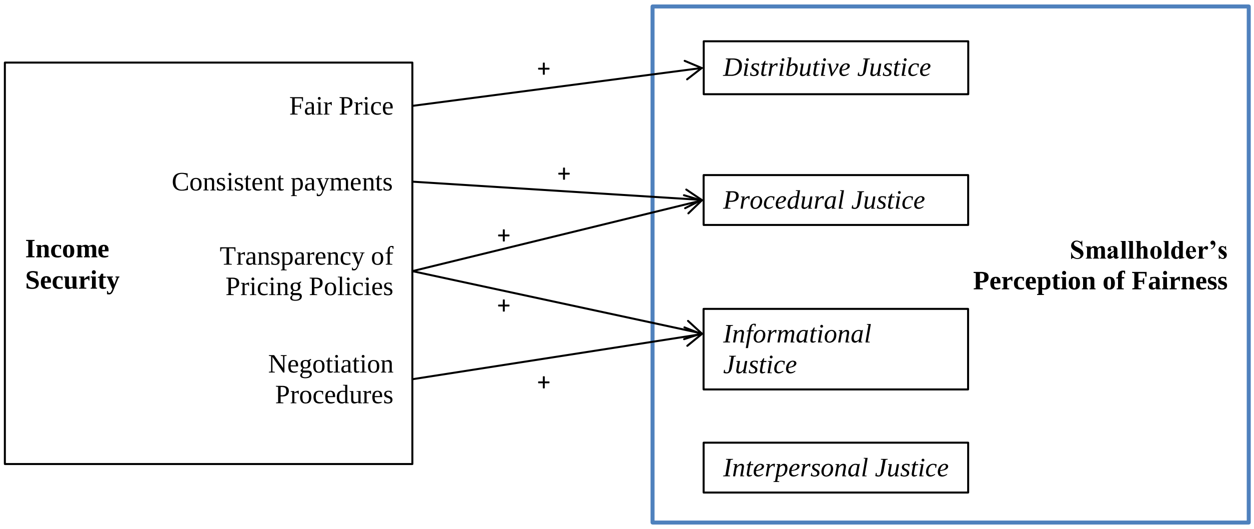


Figure 7.4. The Impact of Income Security on the Smallholder's Perception of Fairness

Source: Author

7.3.2. Interpersonal Relationships

The category of Interpersonal Relationships was identified through the process of selective coding and extensively covered in **Chapter 6, section 6.4**, where it was demonstrated that the success of the B-S relationship highly depended on the level of good interpersonal relationships between the smallholder producer and the buyer, and especially the company's field representative.

The importance of interpersonal relationships in the B-S exchange was explained by the fact that smallholders value personal interactions as an integral part of doing business and do not feel at ease working with a buyer that is distant, unavailable or that they personally don't know on a personal level. Inevitably, local players and cooperatives appeared to have a substantial advantage over MNCs in creating these interpersonal relationships with smallholder producers because of their understanding of and proximity with the smallholder's realities. In fact, certain interviewed producers, when asked why they preferred to work with a local buyer rather than an MNC explicitly gave as a reason that they had a friendlier relationship with the smaller local buyer.

While the subject of interpersonal relationships was omnipresent in each interview with the producers, it was unclear for a long time whether this category had a causal relationship with trust, commitment or eventually both. The analysis of the different situations and stories told by the producers led to the conclusion that the category of interpersonal relationships only affected trust, but not commitment.

First of all, interpersonal relationships have a causal relation with trust. As explained in the previous sub-section, trust is built over time between the buyer and the supplier, and security in the relationship contributed to building trust between the two parties. However, it was observed that producers who had income security but did not have a personal relationship with their buyer felt a lack of trust towards them. Similarly, when producers talked about the level of trust they felt with their buyer, they would equally touch upon the subject of income security and interpersonal relationships, showing that interpersonal relationships were indeed relevant to the trust building process. MNCs also felt that their ability to interact with producers on a personal level and develop close relationships with them made a difference in creating trust.

Second of all, interpersonal relationships do not directly impact commitment in the B-S relationship. Indeed, interviews showed that there was a difference between companies that remained at the stage of good interpersonal relationships with the producers and companies that went beyond interpersonal relationships and brought something more to the relationship. That difference, which we will come to in **section 7.4** of this chapter, explained that while interpersonal relationships fostered trust, something more was needed to reach the level of commitment. Indeed, an important distinction must be made between commitment and loyalty. Producers that were loyal to their buyer were not actively seeking out other opportunities, while producers that were committed to their buyer were producers that no offer could convince to leave their company or side-sell their produce, which is a common scenario and a true concern of MNCs working with smallholders. This difference is important in so far as interpersonal relationships appeared to increase loyalty, that is to say the fact that producers were not actively looking to leave the relationship, but was not enough to generate commitment. Similarly, lack of interpersonal relationships not only maintained distrust but could also increase a producer's propensity to be disloyal and actively look for other opportunities. Developing interpersonal relationships thus appeared as an essential strategy for supplier retention.

Finally, it was observed that the level and nature of interpersonal relationships affected the smallholder supplier's perception of fairness, in so far as "interpersonal justice" is a component of perception of fairness in a business exchange between two asymmetrical partners (Hornibrook et al., 2009). Indeed, it was clear that the behavior, interpersonal skills and level of communication of the company's field supervisor played an important role in shaping the smallholder's perception that the company was fair and in reducing his perception of being the "weaker" partner: for example, field supervisors that were friendly, took the time to talk about more personal matters and visited the producer to communicate directly with him enhanced the smallholder's perception of fairness by taking down the asymmetry barrier between the MNC and the supplier, while companies that remained distant and did not cultivate this interpersonal dimension of the relationship only accentuated these asymmetries and reinforced the smallholder's perception of being inferior.

Figure 7.5 below illustrates how the identified properties of interpersonal relationships impact not only the perception of interpersonal justice in the relationship but also other dimensions of the farmer's perception of fairness.

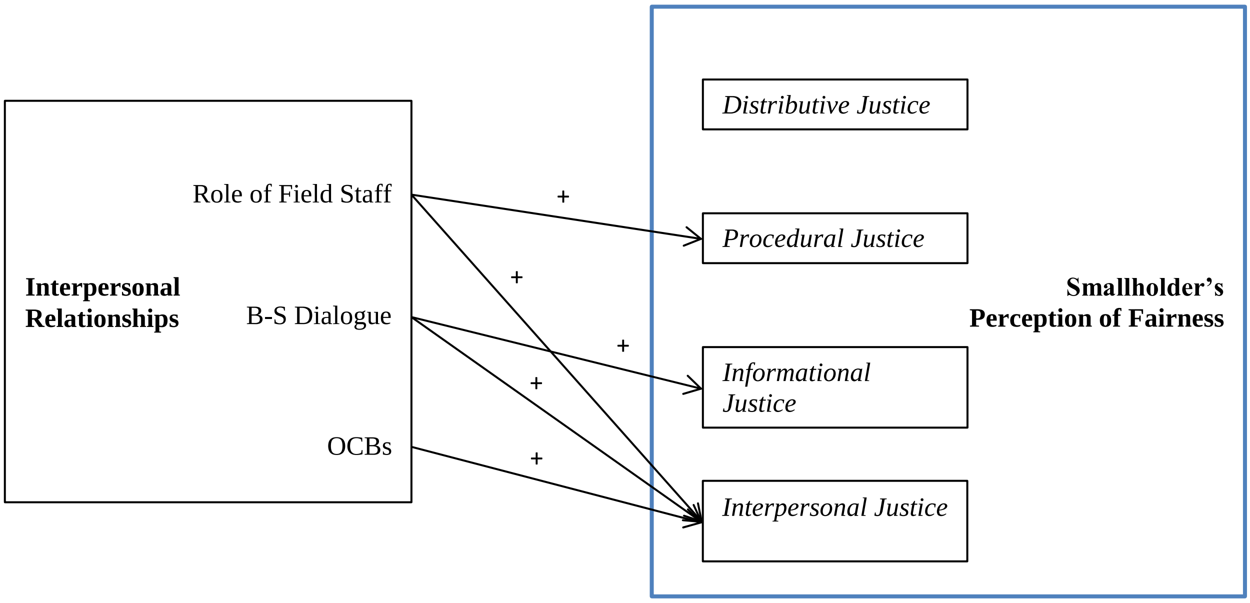


Figure 7.5. The Impact of Interpersonal Relationships on the Smallholder's Perception of Fairness

Source: Author

Furthermore, **Figure 7.6.** below shows how trust is gradually constructed between the two partners through the development of interpersonal relationships.

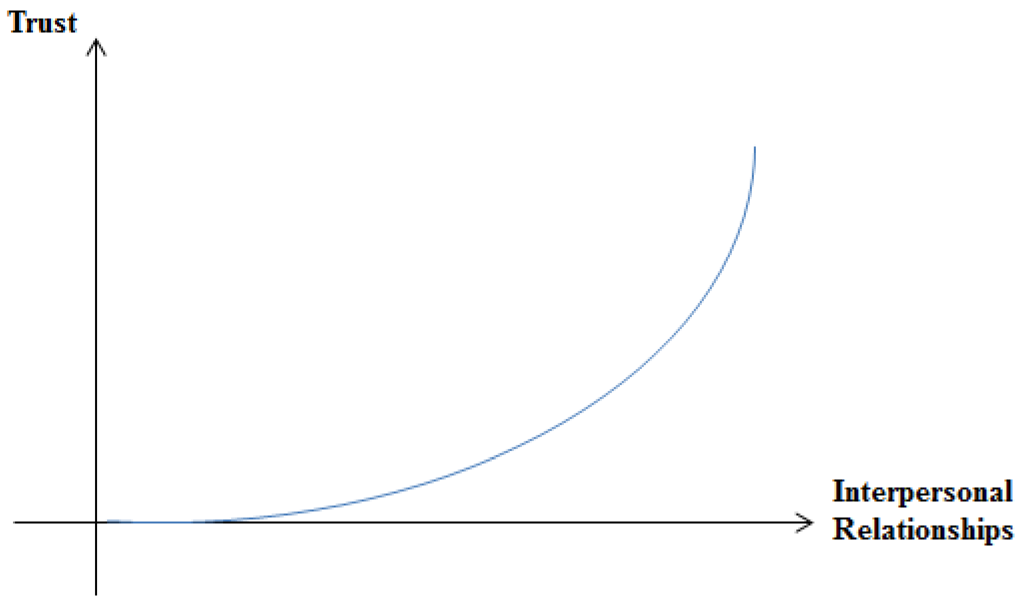


Figure 7-6. Trust as a Function of Interpersonal Relationships in the Buyer-Supplier Relationship

Source: Author

As shown in **Figure 7-6**, trust is a function of interpersonal relationships between the company and the smallholder farmer. However, this correlation is not linear. Indeed, as explained in the case of the correlation between trust and security, trust is an element built over time and with the accumulation of initial efforts. The more the buyer and the smallholder engage in interpersonal interactions, the easier it is to build and consolidate trust in the relationship. Over time, as the two sides of the relationship have increased their personal knowledge of each other and their level of friendliness, trust is more and more reinforced. The increasing marginal progression of this correlation means that each additional increase in the level of interpersonal relationships in the B-S relationship will raise the level of trust in higher proportions than the previous.

7.3.3. Use of Coercive Power and Perception of Fairness

I have discussed the importance of the smallholder's perception of fairness in the early stages of the relationship where the partners are of asymmetrical status and start off with an initial lack of trust. In order to build trust, two strategies were discussed as being relevant: ensuring partner security and developing interpersonal relationships. However, outside of these strategies that positively contribute to building trust, another component can affect the building of trust in a negative sense: the use of coercive power by the buyer to influence the smallholder will have a negative impact on the smallholder's perception of fairness, in so far as it will accentuate his feeling of being the weaker partner in the exchange, thus damaging the level of trust. Coercive power yields compliance of the weaker partner in the relationship to the requirements of the stronger one and generally seeks to produce a "win-lose" scenario, where one partner is compelled into doing something out of constraint rather than through free will.

Iin an asymmetrical relationship, the use of coercive power by the more powerful partner directly impacts the perception of fairness of the weaker partner. Should an MNC impose penalties on a supplier for failing to comply with basic quality requirements, as was observed several times throughout the field research, the supplier's perception of fairness will be affected in higher proportions than it should be because of their weaker position in the relationship. In other words, because the relationship is unequal from the start, the use of coercive power by the stronger partner will exacerbate the already high perception of injustice of the weaker partner. While it was difficult to observe all the kinds of coercive power that companies could use with their smallholder suppliers, six different forms were identified during the field research and described in **Chapter 6**: economic penalties, arbitrary price-setting, negotiation power, coercive monitoring, threats and legal mechanisms. All of these properties of coercive power were seen to have a direct impact on the smallholder's perception of procedural justice, however other dimensions of perception of fairness were also affected. **Figure 7-7.** below illustrates how coercive power impacts the farmer's perception of fairness.

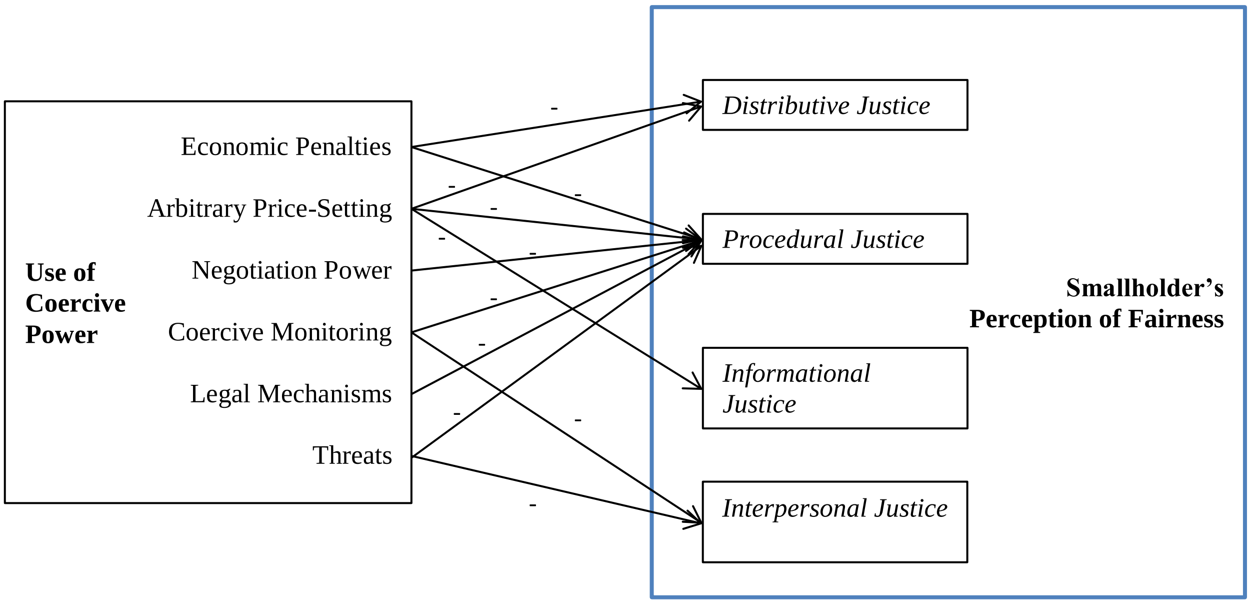


Figure 7.-7. The Impact of the Use of Coercive Power on the Smallholder's Perception of Fairness

Source: Author

In cases where the supplier's perception of fairness was weakened by the use of coercive power, it directly impacted their trust towards the company and their desire to be associated with them in a negative way. Coercive power could produce negative effects on perception of fairness and trust in relationships where commitment was non-existent between the two partners, however it was a less relevant dimension in relationships where commitment was high, essentially because it was either poorly used by the buyer or because it was only used in a way that was accepted by the smallholder farmer. For example, in the case where a buyer resorted to economic penalties to sanction a smallholder failure to comply with quality standards in a relationship where commitment was high, this was seen as regular procedure in the relationship: the farmer was aware that one of the risks of low role performance and non-compliance was economic punishment, which he accepted as part of the mechanisms that governed the relationship. However, in relationships where trust was weak and partner asymmetry was high, the use of coercive power such as penalties increased the smallholder's perception of unfairness and impeded the construction of trust. In this sense, coercive power is a variable which can diminish the building of trust, but plays no role in enhancing or damaging commitment in the proposed substantive theory.

7.3.4. Conflict in the Relationship

While there were little actual observed examples of conflict throughout the field research, it would be unrealistic to conceive a relationship model that does not factor in the possibility of conflict between the two business partners. In the KMV Model of Relationship Marketing (Morgan & Hunt, 1994), the use of coercive power in a business partnership increases the propensity of conflict. In addition to coercive power, it was observed in this research that perception of fairness and the existence of interpersonal relationships in the B-S relationship decreased the propensity of conflict between the two partners.

Conflict can be described as the existence of a disagreement or a divergence between the two partners on the way things should be done in their business alliance. Coercive power can naturally create this divergence because, as explained in the previous section, it creates “win-lose” scenarios and is based on constraint of one partner by the other rather than mutual will to go in a common direction. As an example, during one of my field trips, a company was trying to solve a conflict with a producer that had arisen: because of a lack of compliance of the farmer with a production requirement, the company imposed economic penalties on the producer. The producer upheld that this penalty was too high and unjust and according to the company’s field supervisor, they were not sure if the producer was going to continue supplying them as a result. This conflict was caused because the company’s response to the farmer’s lack of compliance was to use coercive power, which in turn also led the farmer’s perception of fairness to drop.

Indeed, perception of unfairness can contribute to conflict in the B-S relationship while a high perception of fairness can curb the possibility for conflicts to arise in so far as the smallholder will perceive the buyer as inherently fair in the relationship and will similarly seek to ease divergences or problems amicably rather than through confrontation. Moreover, the existence of strong personal bonds between the smallholder and the buyer has a negative correlation with the existence of conflict: indeed, the closer the smallholder and the buyer feel to each other, the more confidence they have to communicate openly and resolve problems amicably. For example, in interviews where the company’s supervisor was present in the discussion, when asked what they believed the company could do better in the B-S relationship, farmers that had close personal relationships with company supervisors freely expressed their complaints in the interviews in presence of the company’s supervisor, while those that had little personal chemistry with the supervisor remained brief and were uncomfortable with the subject, suggesting that conflict had the potential to arise between buyer and supplier.

Conflict is not necessarily negative to the overall success of the relationship: RM talks of “functional conflict” (Morgan & Hunt, 1994) which prevents stagnation, fosters communication between the partners and provides a medium through which problems can be aired and solutions generated. In the cases where producers and the buyer had a broader level of open communication and that suppliers were seen to freely express their complaints, we could say that they were examples of functional conflict: the relationship is not free of divergences but the partners communicate effectively on these divergences to air problems and find solutions.

7.3.5. The Interrelation between Security and Interpersonal Relationships in the Trust Building Process

In the previous sub-sections, we discussed how security and interpersonal relationships are strategies of the stakeholders that foster trust, and how trust is one of the higher-level explanatory categories in the proposed theoretic model of this research. **Figure 7-8** below illustrates the interrelation between the two strategies that are involved in the process of building trust between the buyer and the supplier and the four resulting conceivable scenarios.

There are four conceivable scenarios at this first stage of the B-S relationship that can result from the interrelation between security and interpersonal relationships.

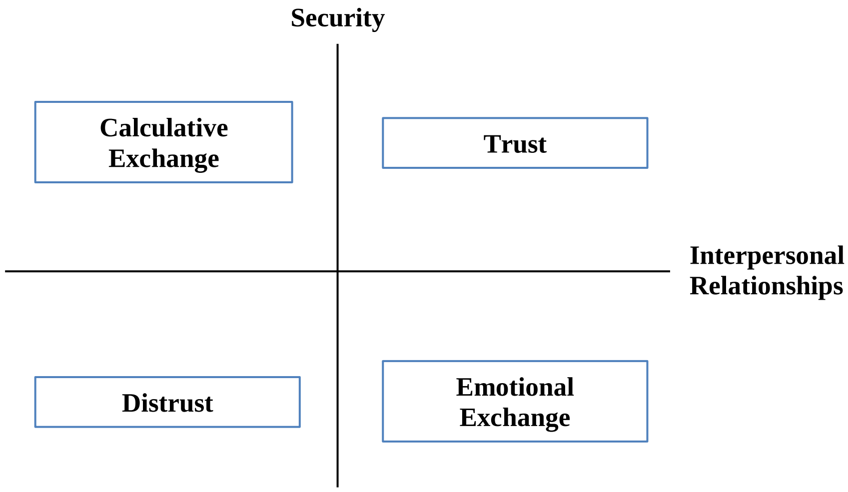


Figure 7-7: The Interrelation between Security and Interpersonal Relationships in the Trust-Building Process

Source: Author

- **Distrust** is the scenario where there is neither security nor any form of interpersonal interaction within the relationship between the company and the smallholder supplier. Typically, distrust is the situation in which both partners start off before engaging with each other in the business exchange.
- **Calculative Exchange** is the scenario where the partners feel security with one another but do not have any form of interpersonal relationship. In other words, the partners feel economic satisfaction but not social satisfaction. The nature of the exchange relationship is transactional and based on the effective fulfillment of the role performance of each party. Their engagement

with one another is calculative, meaning that both partners see fit to pursue their business relationship based on the pursuit of their individual self-interests and on their continued economic satisfaction. However, without interpersonal interaction, which plays an essential role in building social satisfaction of the business partners, they cannot reach a higher level of trust. Similarly, should one of the partners no longer feel that the business exchange is relevant to the pursuit of their individual self-interests, they can easily terminate the relationship.

- **Emotional Exchange** is the scenario where the partners have a high level of interpersonal relationships with one another but a low or non-existent level of economic security in the exchange. In other words, the partners feel social satisfaction but not economic satisfaction. The exchange relationship is based on emotional engagement, meaning that the buyer and the supplier remain in the relationship out of "moral duty" to one another rather than out of pure business rationale. Typically, this is the case of smallholders working with very local buyers from the same community because they are "friends", despite the fact that the local buyer is financially insolvable and does not compensate the producer fairly or on time. Without security, the two partners cannot reach a higher level of trust. In this scenario, the relationship is more difficult to terminate because the partners are associated with one another out of emotional attachment, but it is not based on the foundation of economic sustainability. This situation is still quite common and explains that many smallholder farmers lose their motivation from working with buyers that do not provide economic security: they often end up pursuing another activity and leaving the farming profession which they perceive as too unstable.
- **Trust** is the scenario where the two properties, security and interpersonal relationships, are reunited in the exchange relationship between the buyer and the smallholder producer. In other words, the two partners experience both economic and social satisfaction. This is the first desirable scenario proposed by the theoretic model of this research for the success of the B-S relationship in inclusive business targeting smallholder producers.

7.3.6. Trust as a "Qualifying" Factor in the Relationship

Trust is the first step of the proposed theoretic model of this research. It is an outcome variable that results from the existence of both security and interpersonal relationships in the relationship between a company and the smallholder supplier and that can be influenced by intervening factors such as the use of coercive power and the smallholder's perception of fairness. Trust refers to the fact that both parties of the relationship are confident that they can and want to do business together, based on the fact that they feel secure regarding their expectations in the exchange and that they have a high level of both economic and social satisfaction.

Trust is only a first step in the construction of a successful B-S relationship between MNCs and smallholder farmers and comes before commitment. This means that commitment can only exist in the relationship in so far as the partners have first established trust between each other. In this sense, trust is a "qualifying factor". In operations management, order qualifiers are characteristics of a product that are required to exist for the product to be considered by the customer, while order winners are characteristics that will differentiate a product from its competitors and win the customer's bid. In analogy, we use the concept of qualifying and winning factors here when looking at what a successful B-S relationship is. Trust is a qualifying factor of a successful relationship engaging companies and smallholders in so far as it is a first step and a required component for both partners to be able to go further together in their business relationship. In other words, trust needs to exist for the partners to consider building a long-term exchange relationship together.

7.4. Step 2: Developing Partner Interdependence

Interdependence was identified as the central phenomenon that can explain the success of B-S relationships in inclusive business targeting smallholder agriculture. Indeed, it was observed as what "made the difference" in long-term and mutually beneficial B-S relationships compared to other more transaction-oriented business exchanges. Interdependence does not occur simply over time because of the existence of trust between the two partners, its construction is enabled by two strategies of the buyer and the supplier, namely the use of non-coercive power and the construction of mutual alignment. These two strategies are also essential to reach commitment, as the existence of interdependence between the two partners generates commitment as an outcome which we will discuss in the next section.

This section will proceed to detail each one of these two strategies and their relationship to interdependence as well as to trust, then by going through how the interrelation between non-coercive power and mutual alignment enable the existence of interdependence between the two partners as opposed to other less desirable scenarios. Finally, we will explain the role that interdependence plays in building commitment, why it is an antecedent of commitment and the central phenomenon of the relationship model.

7.4.1. Use of Non-Coercive Power

Chapter 6 extensively covered the category of the power dynamics that were observed in the relationships between MNCs and smallholder suppliers. Indeed, relationships between MNCs and smallholders are naturally prone to being asymmetrical and unequal in terms of resource endowments and the partners' abilities to use power to influence each other.

In addition to accounting for a large percentage of their suppliers' turnover, having other significant business alternatives to the smallholder suppliers and possessing high levels of information to monitor the value for money of the supplier's product which all convey power resources to the MNC to influence overall decisions in the relationship, MNCs also possess higher resource endowments than their smallholder suppliers which bestows economic and bargaining power upon them. The combination of these factors explains that MNCs will naturally have higher abilities to influence their smallholder suppliers than the suppliers to influence the MNC. The more similar the partners are in terms of their respective resource endowments, the more symmetrical the relationship will be.

The literature on power covered in **Chapter 3** distinguishes between coercive and non-coercive sources of power[7], and shows how the use of one and the other can produce different outcomes in a relationship of business partners. While coercive power refers to the use of penalties, threats and other coercively-enforced measures to influence a partner to yield power (which they will do begrudgingly rather than willingly), non-coercive power belongs to a more subtle use of power in the relationship based on granting rewards, using expertise, exercising legitimate influence or capitalizing on referential status. In this research, the same distinction between coercive and non-

[7] French and Raven, 1959.

coercive power was used for didactic purposes. It was observed that the use of coercive power could damage the trust-building process but that it had little impact on either interdependence or commitment, while the use of non-coercive power played a central role in fostering these two outcomes in the relationship.

In particular, companies that capitalized on expert and legitimate sources of power were able to engage their smallholder suppliers at a higher level than those who did not use this type of power, because smallholders felt that they were growing and progressing with the help of the company's advice and technical training, as shown by the frequent use of the expression "win-win partnerships" in interviews (see Appendix 4). Technical assistance, as a non-coercive source of expert power, also allowed companies to monitor supplier compliance with their production standards without having to resort to coercive monitoring techniques, and also reduced the frequency of the use of penalties to sanction a producer's lack of compliance. Using supplier certification as a legitimate source of buyer power, for example to obtain smallholders to be aligned with the MNCs environmental norms, also raised the supplier's role performance and allowed to decrease the overall use of coercive power in the relationship. These forms of non-coercive power raise partner interdependence in so far as the company will invest considerable time and resources to provide technical assistance to its smallholder suppliers: as one interviewed manager of a food and beverage MNC stated, the MNC "*invests in these partnerships*" and does not want to lose these suppliers (BM1a). An analogy can be made with a firm's HR strategy: when a firm invests resources to hire and train employees, it does not want to lose them. Meanwhile, the smallholder is learning to produce better and is earning an improved income as a result of this technical assistance: both partners thus become interdependent in so far as the relationship becomes increasingly relevant to their performance and the value they create together as partners is higher than the sum of the values they could generate on their own.

Reward power heightened the sense of "winning" together and of working for the same objective, thus increasing the interdependence of goals between the partners in the supply chain and fostering a common vision of what needs to be accomplished in order to be performing. Finally, capitalizing on referent power – that is to say the desirability of one partner in the eyes of the other – enabled the partners to maintain their desire to continue working with one another in the future. As demonstrated in **Chapter 6**, while reward, expert and legitimate power were generally only in the hands of companies who had the resources to use them, it was observed that smallholders could obtain referent power through their geographical situation, their compliance and their will to grow and adapt to change, as well as had the potential to develop their ability to capitalize expert power in certain cases. **Figure 7-9** below shows the correlation between the use of non-coercive power and interdependence in the B-S relationship.

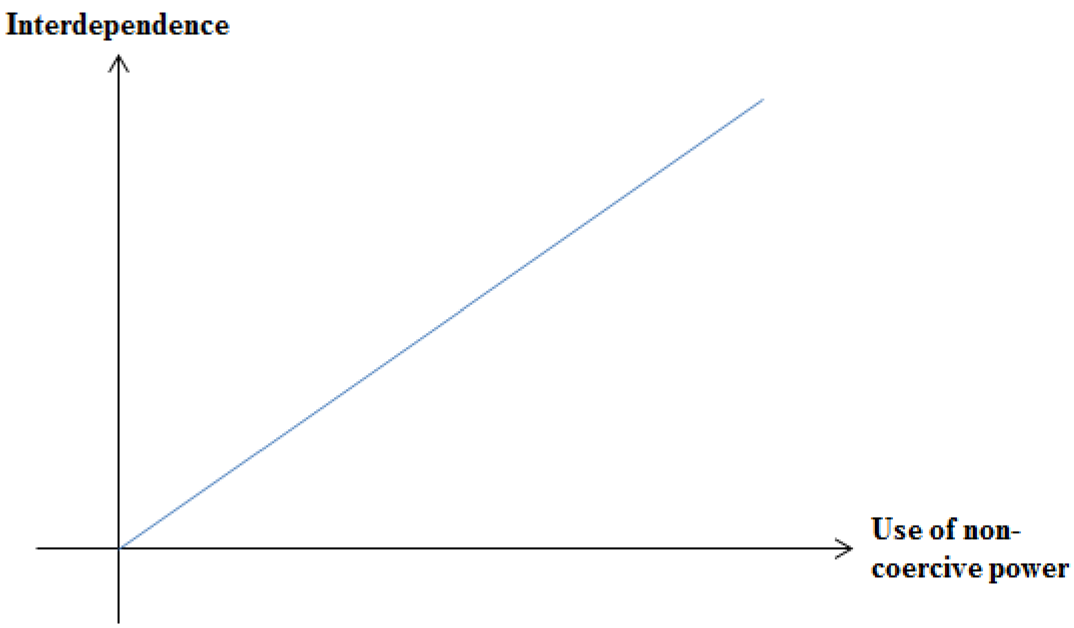


Figure 7-9: Interdependence as a Function of Non-Coercive Power in the Buyer-Supplier Relationship

Source: Author

Interdependence is an increasing function of the use of non-coercive power in the relationship, meaning that the more the partners capitalize on their non-coercive power resources, the more they become interdependent with one another. This can be explained by the fact that non-coercive power contributes to creating "win-win" situations where both partners can wind up with mutually impacting benefits, contrary to coercive power which generally aims at creating "win-lose" situations. In the relationship between MNCs and smallholders, capitalizing on non-coercive power resources can lead to the intertwinement of initially different interests. For example, through the use of reward power, the interest of the company to increase quality and the interest of the smallholder to increase income become closely linked. Similarly, through the use of legitimate power, the company can achieve better environmental compliance while the smallholder can obtain environmental certification. As a result, the use of non-coercive power enables the two partners' interests to rely on each other to create benefits. The correlation between non-coercive power and interdependence is linear, showing that interdependence is a proportional construct of non-coercive power, because each additional use of non-coercive power proportionately raises the level of interdependence between the partners in the relationship. This indicates that the more an MNC relies on non-coercive power to manage its smallholder supplier relations, the more it can expect to create partner interdependence in the relationship.

Finally, the theoretic model suggests that non-coercive power not only contributes to realizing interdependence in the relationship but also reinforces trust, as shown by the feedback arrow which goes from non-coercive power to trust. This is because as partners succeed in capitalizing on their non-coercive power resources to influence one another and create mutually dependent interests, they reinforce the trust that exists between them. For example, the more a smallholder gains referent power by demonstrating to his partner buyer that he is reliable in complying with quality standards, the more he will reinforce the trust that the company bestows upon him. It is a virtuous cycle where, in the beginning, trust facilitates the implementation of strategies based on non-coercive power and, then, the use of non-coercive power resources strengthens trust.

7.4.2. Mutual Alignment

The other strategy that fosters interdependence is mutual alignment, which refers to the existence of synergies between the two partners in the relationship. Mutual alignment, as a strategy, encompasses the two identified categories of **inter-organizational differences** and **partnership orientation** presented in **Chapter 6** and illustrates the idea that the two partners address and overcome their differences and create a partnership culture through mutual alignment strategies. Constructing these synergies is not an easy process because, firstly, it implies that the partnership "makes sense" for the two partners and that it is relevant for them to accomplish their long-term goals. Secondly, mutual alignment implies that both sides of the relationship invest time, resources and goodwill in the partnership. Last but not least, for the company and the smallholder to create inter-organizational synergies, the partners need to overcome certain inherent cultural differences, as cited in **Chapter 6, section 6.6**.

One of the most primordial conditions of mutual alignment is that the partnership makes sense to both of the partners, meaning that the company and the smallholder both feel that they can attain their individual objectives by working with one another. For companies, this is particularly relevant: the development of sourcing strategies from smallholder suppliers needs to be aligned with the company's core business and strategies, and not a mere CSR policy to improve brand image. Companies need to have a strategically vested interest in sourcing from smallholder suppliers to consider them as serious business partners. The partnership also needs to make sense to the smallholder and be aligned with his vision of the future: as covered in **Chapter 6, section 6.7** on the partners' long-term orientation, motivation to remain in the farming activity is key to generate smallholder commitment and a will to grow with the company. Because the majority of smallholders are uncertain of the future, they have little incentive to invest in their own progress such as through partnerships, technical assistance, new technologies or certification processes. A long-term partnership with a company that creates mutual benefits and encourages a positive outlook on the future for the farmer can make a significant difference in the farmer's level of motivation and can push him to grow, improve and incorporate new technologies and be receptive to advice and technical assistance from the buyer.

For companies to foster mutual alignment, they need to invest human and financial resources to contribute to the development of the producer by making available permanent field staff as well as through services, by facilitating the producer's access to credit and improved inputs and implementing governance policies to manage the relationship appropriately. These investments in the relationship are essential to generate common shared values and to signal to the smallholder that the company is committed to maintaining the partnership over the long-term. Similarly, smallholders can signal their commitment to the company by investing resources to increase their yields, improve productivity and demonstrating their will to develop the volume and quality of their production. Companies will perceive these investments as a sign that the smallholder is a reliable and committed supplier that they can grow with. Hence, these partnership-specific investments play an important role in building shared values, increasing partner synergies and making the relationship less and less substitutable by another one.

Finally, mutual alignment requires that the partners overcome certain cultural barriers which are inherent to the specificity of the observed B-S relationships in this research. As mentioned in **Chapter 6, section 6.6**, MNCs and smallholder producers each possess certain "cultural traits" in their way of doing business which can hinder their collaboration and the development of a synergetic partnership. While MNCs rely on well-built managerial practices and constant innovation to conduct business, smallholders are more resistant to change because of norms set in rural traditions. For both partners to accomplish mutual alignment, it is necessary to "meet halfway" and accept to overcome these cultural differences. **Figure 7-10** below shows how mutual alignment and interdependence are correlated in the B-S relationship.

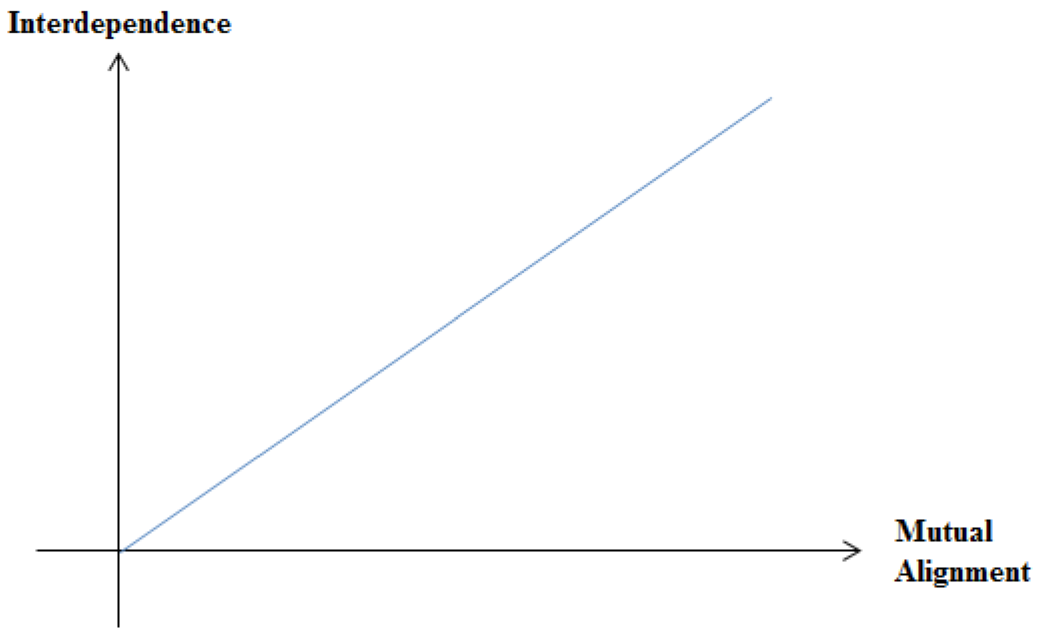


Figure 7-10: Interdependence as a Function of Mutual Alignment in the Buyer-Supplier Relationship

Source: Author

Interdependence is a linear function of mutual alignment in the relationship, meaning that the more the partners build synergies and make relationship-specific investments, the more they become interdependent with one another. This can be explained by the fact that increasing the relevance of the partnership to the attainment of each partner's objectives naturally contributes to increasing interdependence between the partners. Mutual alignment means that the company and the smallholder producer share common goals and values and develop a vision of the future that involves pursuing the partnership. The correlation between mutual alignment and interdependence is linear because every increase in mutual alignment proportionately raises the level of interdependence between the partners in the relationship.

Finally, the theoretic model suggests that mutual alignment not only contributes to realizing interdependence in the relationship but also reinforces trust, as shown by the feedback arrow which goes from mutual alignment to trust. This is because as partners succeed in creating a long-term vision of working together, signal their engagement towards one another through relationship-specific investments and establish mutual goals, they reinforce the perception of each other's reliability which in turn, strengthens the level of trust that exists between them. For example, if a smallholder invests in a higher performing harvesting equipment to improve productivity upon the MNC's advice, this action will be perceived by the MNC as a sign of long-term engagement in the relationship and raise the level of trust that the company bestows upon the smallholder. Moreover, if the MNC offers bank guarantees to support the smallholder's loan, this action will also be perceived by the smallholder as a sign of long-term commitment of the buyer to the relationship and raise trust. As a result, it is a virtuous cycle where, in the beginning, trust facilitates the implementation of mutual alignment strategies and, then, the signaling and realization of mutual alignment continuously strengthens trust.

7.4.3. The Interrelation between Non-Coercive Power and Mutual Alignment in Reaching Interdependence

In the previous sub-sections, we discussed how non-coercive power and mutual alignment are strategies that lead to interdependence. Interdependence is the central phenomenon that explains the construction of successful, long-term and mutually beneficial relationships between MNCs and smallholder suppliers, and it is the component that "makes the difference" between a relationship that relies on trust and one that actively seeks to build relationship commitment. **Figure 7-11** below illustrates the interrelation between these two strategies and the four conceivable scenarios.

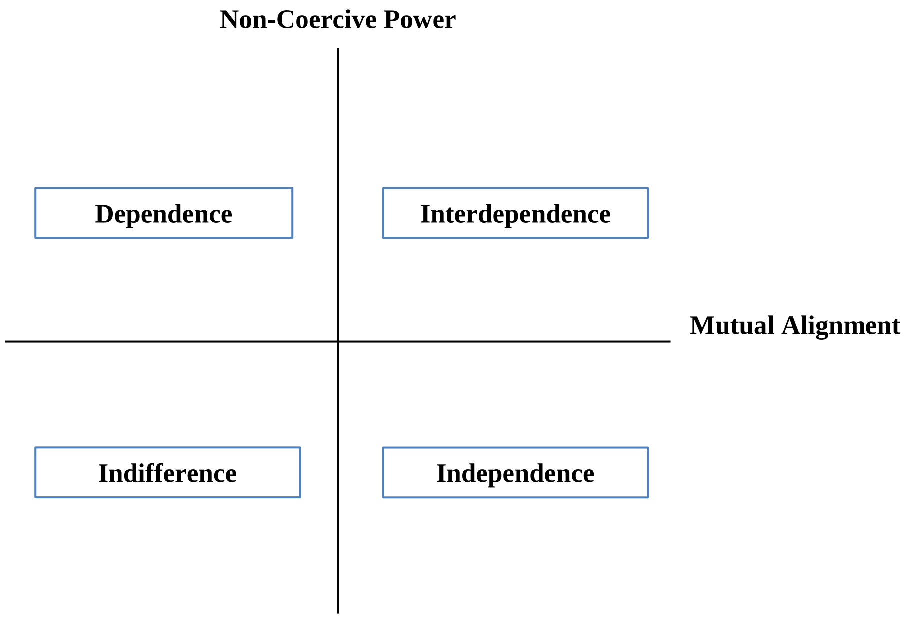


Figure 7-11: The Interrelation between Non-Coercive Power and Mutual Alignment in Reaching Interdependence

Source: Author

There are four conceivable scenarios of B-S relationships that can result from the interrelation between non-coercive power and mutual alignment.

- **Indifference** is the scenario where there is neither use of non-coercive power nor mutual alignment in the relationship. Indifference means that the partners do not have particularly interdependent interests and have not invested significant resources in the relationship, therefore they don't have any particular attachment to maintaining the relationship over a long period of time and the withdrawal of one partner from the relationship would produce little impact for the other. This scenario illustrates a situation where the relationship has little value for the two partners and the costs of terminating it are low.
- **Dependence** is the scenario where there is a high use of non-coercive power combined with low mutual alignment in the relationship between the buyer and the smallholder. Because dependence is unilateral as opposed to interdependence which is bilateral, this scenario implies that only one of the partners is dependent on the other. The use of non-coercive power by the company increases the producer's dependence on the company because his ability to grow and to earn more income is tied to the company. However, the lack of mutual alignment in

the relationship means that the partners are not engaged in establishing a common and long-term vision of the future as partners.

- **Independence**, contrary to dependence, can be applied to both partners in the relationship. Independence is the scenario where there is a high level of mutual alignment between the partners but a weak leveraging of non-coercive power resources. This means that the partners work towards the same goals and are aligned in their actions and strategies, but have made little relationship-specific investments, allowing both partners to maintain a high degree of independence in the relationship. While independence can be a desirable scenario in some B-S relationships, it is not an optimal situation for MNCs and smallholders working together: because of the previously mentioned low technical qualification of farmers and their weak motivation to remain in the field, the use of non-coercive power in the relationship is essential for MNCs to send incentives to farmers and increase their motivation to pursue their activity. A relationship characterized by independence of the MNC and the supplier raises the risk for the MNC to face non-compliance or to simply lose the supplier. It also means that the costs of terminating the relationship are low and that the partners need to invest more in becoming interdependent channel members.
- **Interdependence** is the scenario where the two strategies, non-coercive power and mutual alignment, are reunited in the exchange relationship between the company and the smallholder producer. This is the second step and the second desirable scenario, after the first step of trust, proposed by the theoretic model of the flow from trust to commitment for the success of the B-S relationship in inclusive business targeting smallholder agriculture.

7.4.4. Interdependence as a "Winning" Factor in the Relationship

Interdependence results from the combination of the use of non-coercive power and mutual alignment between two partners who have already built trust in the relationship. It is the situation where both the buyer and the smallholder supplier consider each other as partners and recognize that they mutually impact each other's performances and bottom lines. In other words, when the buyer and the smallholder have realized a situation of interdependence, they consider that their individual performance is closely related to the performance of their partner, and would be negatively affected should the partnership be terminated.

According to grounded theory methodology, one "central phenomenon" must emerge from the data as the main theme of the research and as the core explanation in the research inquiry. Our goal was to identify which factors enabled MNCs and smallholders, as two asymmetrical partners, to build long-term and mutually beneficial business relationships. The central phenomenon which emerged from the analytical process and offered a plausible, comprehensive explanation of the success of these relationships was the development of partner interdependence. It is the central phenomenon because all categories identified in the analysis can in one way or another be related to the idea that the buyer and the supplier must build partner interdependence.

Interdependence is the element which acts as the bridge between trust and commitment in the relationship. Indeed, trust does not automatically lead to commitment between the buyer and the supplier. There are important "gaps" between the company and the smallholder such as power asymmetries, cultural barriers and conflicting interests which need to be overcome in order for the partners to develop commitment.

In the proposed theoretical model, interdependence thus results from the combination of two strategies, the use of non-coercive power and mutual alignment, which themselves are successfully implemented because of the existence of trust between the two partners. These two strategies allow for the gaps between the two partners to be filled. Moreover, interdependence acts as an intermediary phenomenon between trust and commitment: while trust is the first step in the relationship and results from two initial processes in the first stages of the B-S relationship, additional processes to realize the two partners' interdependence are needed once trust is built for the buyer and supplier to reach commitment. While trust was defined as a "qualifying" factor in the relationship, we can infer that interdependence is a "winning" factor, in so far as it is what differentiates the relationship compared to other alternatives of B-S relationships and, in analogy with "order winning factors" in OM, allows for the relationship to "win" the partners' bid. The existence of the winning factor of interdependence between the buyer and the supplier is what "makes the difference" and allows for the development of commitment between the partners.

7.5.Step 3: Reaching Commitment

Commitment was identified as one of the higher-level explanatory categories in the success of B-S relationships in inclusive business targeting smallholder agriculture and is the final outcome in the proposed theory. Commitment results from the realization of trust, which is the first "qualifying" step, and of interdependence, which is the second "winning" step. This section will first start by analyzing how interdependence generates commitment as an outcome. It will then detail the interrelation between trust and interdependence to generate partnership commitment. Finally, we will define the importance of commitment as a final outcome variable in the proposed theoretic model.

7.5.1. Commitment as an Outcome of Interdependence

The previous section showed which processes and strategies create partner interdependence in the relationship. This interdependence in turn generates commitment, as shown in **Figure 7-12** below.

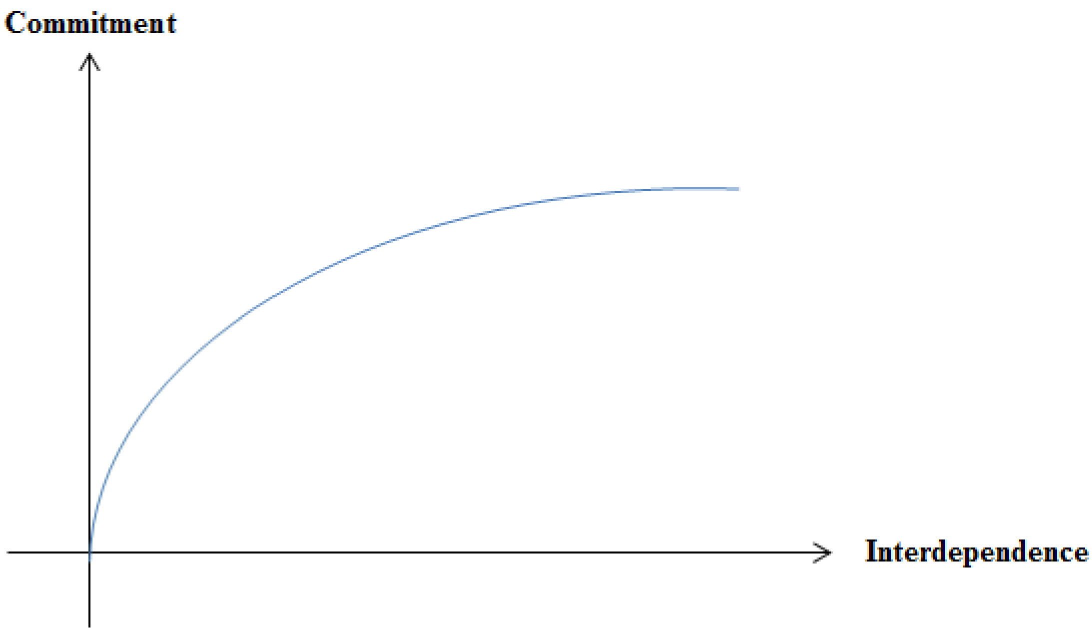


Figure 7-12: Commitment as a Function of Interdependence in the Buyer-Supplier Relationship

Source: Author

Commitment is a function of interdependence, meaning that the higher the level of interdependence between the partners, the higher their level of commitment towards one another. However, it is not a linear function as shown by the decreasingly progressive curb of the represented correlation. This decreasing progression means that interdependence initially raises commitment in the partnership, but that every additional increase in interdependence raises commitment in lower proportions than the previous.

This can be explained, first of all, by the fact that the strategies that build interdependence (such as offering technical assistance and producer certification, demonstrating a will to grow, having a long-term vision of the partnership, establishing governance mechanisms and common goals, etc.) naturally signal commitment: as in human relationships, the first signals of commitment are the ones that have the most impact. Once the partners reach commitment, they are already strongly interdependent which, as defined in the previous section, implies that they are aligned, pursue similar goals and generate mutually beneficial impacts through the partnership.

Second of all, contrary to trust which is a more fragile construct that is built, consolidated and reinforced over time and can easily be ruptured, commitment is a more solid component. Its mere existence means that the partners are already highly interdependent and there is little more than needs to be done outside of the existing strategies to nurture commitment. This is why it is a "consequence" in our use of the paradigm model for this theory. Moreover, to illustrate that commitment is a more solid relationship component than trust, the curb shows that once commitment is established in the relationship, it is difficult to break. The process to reach commitment may be costly in time and resources but once it exists, it is installed in the partnership. As a result, when commitment is high, a decrease in partner interdependence is unlikely to change commitment in a significant way. Similarly, commitment is what ensures that the partners do not want to exit the relationship because they feel they would have "too much to lose" if they stopped working together.

This idea can be illustrated by a particular quotation from a producer who was describing his commitment to the multinational he was working with as a relationship between spouses. This quotation also illustrates the idea that a smallholder's commitment to a buyer means that no alternative opportunity can convince him to leave the partnership.

> Interviewer: What offer would it take for you to stop working with the company and work with someone else?
>
> Producer: NO-THING! Nothing, absolutely nothing. You can't imagine how much I have grown with this company. I started out from zero. They've always been by my side and helped me improve a lot. I get a lot of other good offers, but I would also lose a lot by going to work with another buyer. (Carlos, Ituiutaba).

This quotation shows that when the company and smallholder have reached commitment in the B-S relationship, they have invested in such a level of relationship-specific attributes and benefits that no other alternative can effectively be a feasible substitute to the relationship they have built.

7.5.2. The Interrelation of Trust and Interdependence in the Commitment-Building Process

Commitment is the final outcome in the proposed theoretic model to explain the success of the B-S relationship in inclusive business initiatives targeting smallholder agriculture. It is the result from the existence of both interdependence and trust in the relationship between the company and the smallholder. **Figure 7-13** below shows the interrelation between trust and interdependence and the four conceivable scenarios.

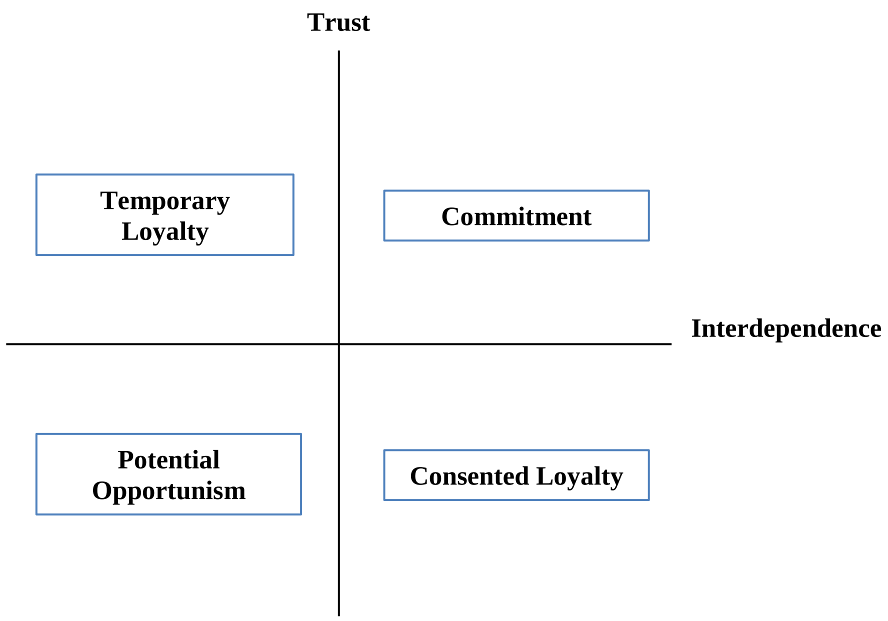


Figure 7-13: The Interrelation between Trust and Interdependence in Reaching Commitment

Source: Author

There are four conceivable scenarios that can result from the interrelation between trust and interdependence in the B-S relationship:

- **Potential Opportunism** is the scenario where there is neither trust nor interdependence between the company and the smallholder. The buyer and the supplier have neither built any form of significant trust between them nor have they developed synergetic interests and benefits from working together. This situation is characterized by the potential for opportunism, meaning that the two parties are in a relationship where they seek, in priority, the maximization of their self-interests and can at any moment easily engage in deceit-oriented behavior, fail to perform their role in the business exchange or "break their word". In relationships between buyers and smallholders, this remains a very frequently observed scenario with either buyers failing to compensate their suppliers, or smallholders opportunistically deciding to side-sell their produce to another buyer with a better offer. In this scenario, commitment is impossible to reach without the combination of both trust-building strategies and actions to reach a higher degree of partner interdependence.

- **Temporary Loyalty** is the scenario where the buyer and the supplier have developed trust but are not interdependent. As explained in **section 7.3.2**, loyalty is the fact for the buyer or the supplier to not be actively seeking out other opportunities, but it does not mean that the buyer or supplier will not exit the relationship should a better opportunity come along. It is different from commitment which is defined by the fact that the buyer or supplier will be unlikely to exit the relationship even though a better opportunity comes along. In this scenario, loyalty is temporary because the buyer and smallholder are not interdependent, meaning that they have not developed a long-term vision of working together or mutually interconnected goals. To reach commitment, the partners need to align themselves along the development of mutual goals and interests that will raise the relevance of the partnership for them in the long-term.
- **Consented Loyalty** is the scenario where the buyer and the supplier are interdependent but there is a low or non-existent level of trust in the relationship. It is a rather rare and unlikely scenario because, according to the proposed theoretic model of a successful relationship, the company and the smallholder need to develop trust first in order to develop interdependence. However, there were several occasions when this scenario was observed in the field research, especially in models of vertical integration where smallholders were tied to an MNC through a contract farming scheme but did not trust the company. The contract farming scheme made the two parties very interdependent, in so far as the producer relied on the MNC's provision of inputs to produce and received all

of his income from selling the produce back to the MNC. However, due to poor interpersonal relationships and a high use of coercive power, trust was weak. The expression “consented loyalty” refers to the idea that loyalty exists because of the contractual nature of the relationship between the buyer and the supplier which prevents opportunism. In this scenario, security may be strong because the partners have a binding contract to buy and sell from each other, nevertheless they need to develop a higher degree of interpersonal connections and the buyer must rely less on coercive power to build trust and therefore, develop commitment in the relationship.

- **Commitment** is the scenario where trust and interdependence are combined in the relationship between the company and the smallholder. It is the final step in the proposed theoretic framework for successful relationships between companies and smallholders in inclusive business and the desirable outcome of the entire process.

7.5.3. Commitment as the Final Step and the Outcome Variable of the Buyer-Supplier Relationship

Commitment is the final step in the proposed theoretic model of a successful B-S relationship in inclusive business initiatives targeting smallholder agriculture. It is the outcome variable resulting from the existence of both trust and interdependence between the company and the smallholder. Commitment is a situation where the exchange partners maximize their efforts to remain in the relationship because they believe it is important to their individual performance and growth. It is characterized by the fact that the partners envision themselves in a long-term relationship and agree upon pursuing mutual goals.

Therefore, according to the proposed theoretic model, a successful B-S relationship in inclusive business initiatives targeting smallholder agriculture is one where the two partners involved in the relationship are able to develop commitment towards one another. Once commitment is reached, as proved in the correlation between interdependence and commitment, so long as interdependence is maintained between the two partners, commitment will be nurtured but does not need significant additional investments to be strengthened.

Why is it important for companies and smallholders to aim commitment when engaging in a business partnership? Firstly, we posit that given the initial context of the relationship – namely the high level of insecurities, distrust and inter-organizational differences between the partners – and the fact that the relationship does not fit within the category of “business as usual”, MNCs and smallholders are not naturally prone to realizing successful and long-term business together, and without commitment, their relationships are more likely to fail.

The second reason is that the existence of commitment in the relationship can in itself produce other benefits, such as for example the decrease in costs of turnover. Many of the interviewed MNCs outlined that the cost of maintaining a relationship with a smallholder producer was lower than the cost of having to constantly look for new suppliers due to high turnover. In this sense, establishing commitment was a priority for these companies. Another benefit that naturally results from commitment is higher performance: if companies succeed in working with the same smallholder suppliers over long periods of time, those suppliers will develop more productive and higher quality practices and become more performing over time in complying with the requirements of the company, therefore raising that company’s performance as well.

Finally, as shown in the theoretic model, commitment also strengthens the already existing trust between the partners, as shown by the positive relation from commitment to trust. This is crucial in so far as it shows that a relationship where there is commitment between the MNC and the smallholder and where all strategies are maintained enters a virtuous cycle of positive reinforcement of trust, interdependence and commitment between the partners. This illustrates the idea that the partners obtain a “return” on having invested in the relationship (through the four strategies that we described) and reap the benefits of this investment while having little to do in addition of the existing strategies to maintain this positive, long-term and mutually beneficial B-S relationship.

CONCLUSIONS

8.1.Conclusions of the Research

The objective of this research was to identify and describe the factors that enable two asymmetrical partners, namely agribusiness MNCs and smallholder farmers, to engage in a business exchange and build a long-term and mutually beneficial business relationship. This subject was chosen in a context where the inclusive business paradigm is gaining increasing attention from business practitioners and the international development community as a way for companies to create positive social impact by integrating low-income populations from developing countries in their value chain, all the while allowing them to strengthen their positioning in local markets and source raw materials at lower costs. The research chose to focus on the relational aspects of the B-S relationship as there was still little knowledge on how the buyer and the supplier effectively interacted within these business exchanges.

In order to achieve this research objective, a grounded theory methodology was adopted to allow the researcher to interpret and give meaning to new qualitative data from the field. Moreover, two theoretical frameworks, RM and OJ, were used to analyze relational concepts that emerged from the data.

The findings of this research show that the collaboration imperative that has been discussed in SCM and OM research applies to a further extent to these B-S relationships in so far as the two partners are of very different business cultures and power statuses. Sharing knowledge and transparent information, integrating operations, clearly defining the roles of both parties in the relationship, agreeing on mutual goals and cooperative norms as well as investing in the relationship are actions that enhance the proper functioning and performance of the business exchange, while lack of these collaborative strategies enhance the precariousness of the business relationship.

Furthermore, the concepts related to RM contributed to the findings of the research by providing an analytical lens through which to define the role of trust, partner interdependence and commitment in these particular B-S relationships. In this research, trust, interdependence and commitment all appeared to play an essential role in the construction of long-term and mutually beneficial relationships between the MNC and the smallholder. In fact, it appeared that there were two stages for the relationship to reach commitment, the first one being to develop trust and the second one being to develop interdependence between the partners. For each stage of the relationship, a certain number of appropriate corresponding strategies were identified.

Four strategies were identified as being central to obtaining trust and commitment in the relationship: while ensuring partner economic satisfaction (through ensuring smallholder income security and compliance with MNC standards) and developing partner social satisfaction (through the development of interpersonal relationships) were two essential strategies to build trust between the MNC and the smallholder, using non-coercive power and developing mutual alignment to foster interdependence between the two partners were two strategies that led to commitment. In the trust-building stage, the findings highlighted in particular the central role of interpersonal relationships. RM literature had already focused on how personal interactions between channel members in a business exchange can foster positive outcomes, higher performance and competitive advantage. This appeared all the more important in an asymmetrical relationship where an MNC engages with a low-income population. Smallholder producers clearly stated their expectation of developing good interpersonal relationships with their buyer. One of the most important conclusions drawn on the topic of interpersonal relationships was that companies engaging with smallholder farmers need to design specific relationship management strategies that determine how to interact on a personal level with the producers. The research also brought forth the importance of perceptions in the relationship to create trust and commitment. While perception of fairness of the smallholder producer, who is the weaker partner in the B-S relationship, is significantly relevant in the trust-building process, perception of commitment is also important: strategies that signal commitment and a long-term vision of the partnership contribute to creating effective commitment in the relationship.

Another important observation that recurred throughout the entire research is the concern with smallholder continuity in the agricultural sector. In fact, this observation shed light on an important aspect that was thoroughly discussed in the analysis of the results and the proposed substantive theory, which is the motivation of the farmer. As a result, commitment appeared as a crucial and relevant relational construct for MNCs to play a role in the stability and economic progress of Brazil’s family agriculture and counter the exodus of younger generations from rural areas toward urbanized centers, as children of producers who were strongly committed in a partnership with an MNC tended to feel higher motivation to participate in farm activities and take on after their parents.

Finally, the research findings show that while the MNC and the smallholder start off as asymmetrical partners in the business exchange, the aforementioned strategies, the existence of trust and the development of interdependence allow for these asymmetries to soften as the two parties become more mutually dependent on each other for their continued performance. The existence of both economic and social satisfaction in the exchange enhances the value of the relationship for both partners, while the intertwinement of interests and goals and the realization of relationship-specific investments raises the relevance of the relationship for the two partners in their individual performance. This is why we posit that the use of non-coercive power by both partner is essential to soften these asymmetries, and that when the relationship reaches the stage of commitment, the partnership is of a more balanced nature.

8.2.Theoretical Contributions of the Research

This research brings theoretical contributions in three areas: Inclusive Business and BoP literature, Relationship Marketing theory and Organizational Justice theory.

8.2.1. Contributions to Inclusive Business and BoP Literature

The research makes contributions to the emerging literature on inclusive business and business strategies at the BoP in so far as it brings knowledge on the relational specificities of building sustainable relationships with a low-income population integrated in a company's supply chain. Indeed, the existing literature on inclusive business remains to this day very one-sided and focuses on the company rather than on the two sides of the B-S relationship. Moreover, there remained little theoretically-grounded knowledge on the inter-organizational challenges linked to these B-S relationships and on how the behaviors of individuals with different "business cultures" and value orientations can affect the evolution of the relationship. The usefulness of this research and of the adopted methodology was to bring further practical knowledge on context-specific realities of these types of inclusive business models and on the operational and managerial challenges encountered within the company-smallholder relationship.

It also deepens the knowledge on inclusive business in Brazil, a country which is gaining increasing attention internationally as an emerging market. Furthermore, as one of the world's only net food exporters, the role of Brazil's booming agribusiness sector in the country's growth and development is undeniable: how it can play a role in creating positive social impact and developing Brazil's low-income family agriculture is thus an essential thread of this research.

8.2.2. Contributions to Relationship Marketing

Concepts from the RM literature such as trust, interdependence and commitment played a pillar role in this research. The findings of the research introduce new elements concerning these concepts: first of all, a form of hierarchy was discovered where trust precedes partner interdependence which leads to commitment in these particular B-S relationships. Moreover, I defined trust as a "qualifying" factor for the relationship to reach partner commitment, while interdependence appeared to be the "winning" factor. In this sense, the research findings show that there are two stages to reach partner commitment in an asymmetrical B-S relationship between an MNC and a smallholder: the distinction between these two stages is important in so far as, contrary to what RM suggests that trust and commitment are developed at the same stage of the relationship, this research found that trust preceded commitment and that commitment could only be developed in a second stage once trust was established between the partners. Thus, this research brings a contribution to Morgan and Hunt's (1994) model of Relationship Marketing on trust and commitment through a substantive theory that shows that when two asymmetrical partners with different resource endowments and imbalanced power statuses engage in a relationship, commitment can be built after trust and when the two partners have softened their asymmetries through the use of adequate stategies that foster interdependence.

Moreover, the research makes an important distinction between partner loyalty and partner commitment in the framework of these particular MNC-smallholder relationships. While many buyers consider trust-building to be the core engagement strategy to sustain a smallholder supply base, it appeared that trust fostered supplier loyalty in the medium term but not commitment in the long-term. This observation is what led me to identify partner interdependence as the relational component that makes the difference between trust and commitment in the relationship.

8.2.3. Contributions to Organizational Justice

This study contributes to furthering knowledge in the area of OJ by demonstrating the relevance of the smallholder's perception of fairness in a supply channel. Fearne et al. (2012) recommend in a study titled *Measuring Fairness in Supply Chain Trading Relationships* that the OJ framework and the concept of perception of fairness could be relevant when building inclusive business models targeting the inclusion of smallholder agriculture in agribusiness supply chains in developing countries.

This study confirms the relevance of this construct when building such models, especially in the early stages of the B-S relationship when partner asymmetries are high and can enhance the smallholder's perception of being the "weaker" partner next to the MNC. The research illustrates how various actions, interactions and strategies in this first trust-building stage can impact the smallholder's perception of fairness in a positive or negative way in terms of distributive, procedural, informational and interpersonal justice.

8.3.Managerial Implications of the Research

The implications of the findings of this research on managerial and business practices are:

8.3.1. Relational over Transactional Focus

The study shows that buyers who adopt strategies to manage the B-S relationship along the lines of a relational exchange have more success in retaining suppliers and obtaining higher performance in the supply chain than those who remain in a transactional perspective. Examples of strategies pertaining to a relational exchange perspective are providing open spaces for negotiation and direct B-S communication, understanding the smallholder's culture, going beyond role performance and demonstrating OCBs and conducting business in a "not as usual" way.

8.3.2. Human Resources: Putting the Right People on the Field

In this research, the role of interpersonal relationships was highlighted as a crucial factor of success in the B-S relationship. The managerial implication of this observation is that companies need to direct special attention on how to select and train the people who they put in charge of managing the smallholder supplier relationship and design a well-thought strategy on how they want to interact with the producer. This means not only ensuring that the supply chain supervisors are familiar with the smallholder's culture, realities and way of life but also that they have the appropriate understanding of the supplier's profile and needs as well as the right skills to interact with the supplier: as highlighted in this research, a successful B-S relationship is built through how well the interpersonal interactions between the smallholder and the buyer are conducted: lack of availability, lack of proximity with the smallholder's realities, behavioral rudeness such as disrespect, distance and arrogance and a general lack of interpersonal skills on the supply chain supervisor's part can have a considerably negative impact on the sustainability of the relationship.

8.3.3. Economic Security of the Smallholder as the Foundation of a Sustainable Relationship

The research shows that lack of economic security of the smallholder is the first reason for which business relationships with a buyer fail. While there were certain exceptions to this rule, the vast majority of interviewed smallholders had a low tolerance for economic insecurity. The managerial implication of this observation is that buyers who want to build a sustainable supply base in an emerging market need to ensure their supplier's economic security through fair and transparent pricing, consistent and on-time payments and fair and open negotiation with the supplier.

8.3.4. Capitalizing on Non-Coercive Power Resources

In terms of smallholder engagement strategies, the use of non-coercive power appeared very effective in this research to foster both trust and commitment. Indeed, the use of non-coercive power effectively contributed to supplier retention over the long-term. Companies that used technical assistance, training, certification and that capitalized on their resources of non-coercive power with the smallholder supplier were able to build mutually beneficial ties with their suppliers, while companies that do not strategically focus on non-coercive power did not create added-value in the partnership and could not go beyond mere supplier loyalty.

8.3.5. Core Business Alignment

The alignment of the inclusive business model targeting smallholder suppliers in the supply chain with the company's overall core business activity is crucial for the B-S relationship to “fit” within the company’s priorities and for it to be commercially viable over the long-term. If the B-S relationship fits within a CSR strategy rather than a commercial one, it cannot create mutually beneficial impacts for the two partners nor can it foster a stronger level of partnership-specific investments. It is suggested that the inclusive business model be aligned with the company’s priorities and core business.

8.3.6. Attention to Fairness

The research also brings to light the importance of the smallholder’s perception of fairness in the overall success of the B-S relationship. The implication for managers is to understand that these B-S relationships involve partners with high resource and power asymmetries and with considerable inter-organizational differences. Ignoring these asymmetries and differences impedes the healthy evolution of the relationship along the lines of a relational exchange, while developing a conscious awareness of what actions and strategies affect positively or negatively the smallholder’s perception of fairness will make a difference in building trust.

8.4.Limitations of the Study

8.4.1. Limitations of the Methodology Used

The use of GT as a methodology remains difficult, although it is an increasingly adopted method to obtain qualitative data in areas of business knowledge. Indeed, it is difficult to obtain a clear answer when using GT and there were many “grey” areas where data neither conflicted nor converged. Moreover, GT makes many interpretations possible, which is why the nature of the proposed theory is substantive rather than formal. The findings of this research could thus stand to be reinforced by additional studies and even quantitatively-collected data.

8.4.2. Limitations in Obtaining Data

One of the most considerable limitations encountered throughout this research was to access smallholder suppliers: many companies appeared to be reluctant to authorize the researcher to interview their suppliers, and when field trips were granted, the producers were systematically interviewed in the presence of a company representative. This probably hindered in many cases the smallholders’ abilities to express their views freely on the relationship with the buyer. Certain smallholders were accessed outside of the interviewed MNCs as a result, however in those cases, the company with whom they worked was not interviewed which limited our understanding of the relationship of the two parties as a whole.

Moreover, the willingness of companies to introduce us only to their "best case" producers in an attempt to show a CSR-driven vision of their relationships with smallholders clearly appeared. In general, there seemed to be a recurrent misunderstanding on the topic of the research: many companies were more concerned with talking about and showing CSR-driven strategies (such as specific social impact programs with suppliers that were led by the company's foundation) than focusing on the business aspects of their relationship with producers. On several occasions, it was necessary to rectify their understanding of the research topic and insist on the study's focus on business considerations of the B-S relationship.

8.4.3. Limitations in Sample Size

Another limitation that was encountered in the research was in the size of the sample. While the number of interviewed producers was satisfactory and within the number that was aimed by the methodological design of the study, the number of MNCs that responded to my request for an interview was lower than the initial objective, which possibly limited my ability to compare MNCs for similarities and differences and which pushed me to incorporate smaller, more local buyers to whom I found I had easier access to. A larger amount of MNCs in the sample would have been desirable to verify the results more strongly.

8.4.4. Limitations in Reaching Category Saturation

Because time and resources were limited to conduct this study, the ideal of reaching full category saturation was not entirely reached. Toward the end of the research, many recurring elements did appear in the interview data and certainties for interpretation appeared in many parts of the research. However, certain question marks remained, especially on how to incorporate the notion of perception of fairness and coercive power in the relationship model. Ideally, more time would have been needed to return to the field and reach complete category saturation.

8.5. Indications for Future Research

Because the nature of the theory developed in this research is substantive, it is designed to be enriched and further developed with additions from future research.

This study opens up opportunities for further research on the same topic to focus on:

- The role played by the smallholder's perception of fairness in the entire length of the B-S relationship, notably to understand if it has any impact on the development of interdependence and commitment or if it is only relevant to trust.
- One type of value chain in particular: the results of this study were drawn from three different value chains, but focusing on one specific sector such as dairy or poultry, can bring understanding on their contexts and specificities.
- The role that MNCs in the food sector can play in the ongoing stability, economic progress and sustainability of Brazil's family agriculture and in the motivation of future generations to take over their parents' farm activities.
- Comparing results across countries, for example by comparing Brazil with another emerging economy.
- Conducting a comparative study on how MNCs and local players manage these supplier relationships differently, their respective advantages and lessons that can be drawn from one another.

LIST OF REFERENCES

Addison, R. B. (1989). Grounded interpretive research: An investigation of physician socialization. In M. J. Packer, & R. B. Addison (Eds.), *Entering the circle: Hermeneutic investigation in psychology* (pp. 39-58). New York: NY State University Press.

AGROSTAT. Estatistícas de Comercio Exterior do Agronegócio Brasileiro. http://sistemasweb.agricultura.gov.br/pages/AGROSTAT.html

Andersen, P. H., & Kumar, R. (2006). Emotions, trust and relationship development in business relationship: a conceptual model for buyer-seller dyads. *Industrial Marketing Management*, *35*(4), 522-535.

Anderson, E., & Weitz, B. A. (1989). Determinants of continuity in conventional industrial channel dyads. *Market Science*, *8*(4), 310-323.

Anderson, E., & Weitz, B. A. (1992). The use of pledges to build and sustain commitment in distribution channels. *Journal of Marketing Research*, *29*(1), 18-34.

Anderson, J. C., & Narus, J. A. (1990). A model of distributor firm and manufacturer firm working partnerships. *Journal of Marketing*, *54*(1), 42-58.

Asian Development Bank (2012). *Impact Investing for Inclusive Business in Asia*. Conceptual Framework for the Manila Forum (28-29 November 2012). ADB: Manila

Audsley, B. (2011). *Local purchase and smallholder farmers: Revisiting the logic underpinning common assumptions*. Washington D.C.: Congressional Hunger Center.

Bandeira-De-Mello, R., & Cunha, C. (2006). Grounded Theory. In C. Godoi, C., R. Bandeira-De-Mello, & A. Silva, *Pesquisa Qualitativa em estudos Organizacionais: Paradigmas, estratégias e Métodos* (pp. 241-266). São Paulo: Saraiva.

Barnes, J., & Liao, Y. (2012). The effect of individual, network, and collaborative competencies on the supply chain management system. *International Journal of Production Economics*, *140*(2), 888-899.

Belaya, V., Gagalyuk, T., & Hanf, J. (2009). Measuring asymmetrical power distribution in supply chain networks: What is the appropriate method? *Journal of Relationship Marketing, 8,* 165-193.

Berdegué, J. A., & Escobar, G. (2002). *Rural diversity, agricultural innovation policies and poverty reduction*. AgREN Network Paper No. 122. London: Overseas Development Institute.

Berdegué, J. A., & Fuentealba, R. (2011). *Latin America: The state of smallholders in agriculture*. Rome: IFAD.

Binder, M., & Edwards, J. S. (2010). Using grounded theory method for theory building in operations management research: A study on inter-firm relationship governance. *International Journal of Operations and Production Management*, *30*(3), 232-259.

Boechat, C., Werneck, N., & Miraglia, L. (2007). *Sadia program for sustainable swine production (3S): Bringing sustainability to the supply chain*. GIM Case Study No. A038. New York: United Nations Development Programme.

Boechat, C., & Mokrejs Paro, R. (2008). *Natura's Ekos: Perfume essences produce sustainable development in Brazil*. GIM Case Study No. A032. New York: United Nations Development Programme.

Brennan, R., & Turnbull, P. W. (1999). Adaptative behavior in buyer-supplier relationships. *Industrial Marketing Management*, *28,* 481-495.

Brown, J. R., Lusch, R. F., & Nicholson, C. Y. (1995). Power and relationship commitment: Their impact on marketing channel member performance. *Journal of Retailing*, *71*(4), 363-392.

Buchanan, L. (1992). Vertical trade relationships: the role of dependence and symmetry in attaining organizational goals. *Journal of Marketing Research*, *29*(1), 65-75.

Cai, S., Yang, Z., & Jun, M. (2011). Cooperative norms, structural mechanisms, and supplier performance: Empirical evidence from Chinese manufacturers. *Journal of Purchasing and Supply Management*, *17*, 1-10.

Caniëls, M. C. J., & Gelderman, C. J. (2005). Power and interdependence in buyer-supplier relationships: A purchasing portfolio approach. *Industrial Marketing Management*, *36* (2007), 219-229.

Cannon, J. P., & Perreault Jr., W. D. (1999). Buyer-seller relationships in business markets. *Journal of Marketing Research, 36*, 439-460.

Carr, A. S., & Pearson, J. N. (1999). Strategically managed buyer-seller relationships and performance outcomes. *Journal of Operations Management*, *17*, 497-519

Carvalho, A. (2011). *Gestão sustentável de cadeias de suprimento: Análise da indução e implementação de práticas socioambientais por uma empresa brasileira do setor de cosméticos*. Tese (Doutorado em Administração de Empresas) – Escola de Administração de Empresas de São Paulo da Fundação Getulio Vargas – São Paulo.

Chaddad, F. R., & Jank, M. S. (2006). The evolution of agricultural policies and agribusiness development in Brazil. *Choices*, *21*(2), 85-90. http://www.choicesmagazine.org/2006-2/tilling/2006-2-08.pdf

Charmaz, K. (1990). "Discovering" chronic illness: Using grounded theory. *Social Science and Medicine*, *30* (11), 1161-1172.

Charmaz, K. (2000). Grounded Theory: Objectivist and constructivist methods. In N. K. Denzin, & Y. S. Lincoln (Eds.), *Handbook of Qualitative Research* (pp. 509-535). Thousand Oaks, CA: SAGE.

Chen, I. J., & Paulraj, A. (2004). Understanding supply chain management: critical research and a theoretical framework. *International Journal of Production Research*, *42*(1), 131-163.

Chmielewska, D., & Souza, D. (2010). *Market alternatives for smallholder farmers in food security initiatives: Lessons from the Brazilian Food Acquisition Programme*. Working paper 64. Brasilia: IPC-IG.

Christopher, M. L. (1992). *Logistics and supply chain management*. London, UK: Pitman Publishing.

Christopher, M. L. (2005). *Logistics and supply chain management: creating value-added networks* (3rd ed.). Harlow, UK: FT Prentice Hall.

Chu, S.-Y., & Fang, W.-C. (2006). Exploring the relationships of trust and commitment in supply chain management. *Journal of American Academy of Business*, *9*(1), 224-228.

Colquitt, J. A. (2001). On the dimensionality of organisational justice: A construct validation of a measure. *Journal of Applied Psychology*, *86*(3), 386-400.

Comini, G., Barki, E., & Aguiar, L. (2012). A three-pronged approach to social business: A Brazilian multi-case analysis. *Revista de Administração de São Paulo*, *47* (3), 385-397.

Cooper, M. C., Ellram, L. M., Gardner, J. T., & Hanks, A. M. (1997). Meshing multiple alliances. *Journal of Business Logistics*, *18*(1), 67-89.

Cooper, M. C., Lambert, D. M., & Pagh. J. (1997). Supply chain management: more than a new name for logistics. *The International Journal of Logistics Management*, *8*(1), 1-14.

Corbin, J., & Strauss, A. (2008). *Basics of qualitative research: techniques and procedures for developing grounded theory* (3rd ed.). Thousand Oaks, CA: Sage.

Coughlan, P., & Coghlan, D. (2002). Action research for operations management. *International Journal of Operations & Production Management*, *22*(2), 220-240.

Cousins, P. D., & Lawson, B. (2007). The effect of socialization mechanisms and performance measurement on supplier integration in new product development. *British Journal of Management*, *18*(3), 311-326.

Cox, A., Lonsdale, C., Watson, G., & Qiao, H. (2003). Supplier relationship management: a framework for understanding managerial capacity and constraints. *European Business Journal*, *15*(3), 135-145.

Cox, A., Sanderson, J., & Watson, G. (2000). *Power regimes*. Boston: Earlsgate Press.

Creswell, J. W. (1998) *Qualitative Inquiry & Research Design: Choosing among five approaches*. Thousand Oak, CA: Sage.

Creswell, J. W. (2007) *Qualitative Inquiry & Research Design: Choosing among five approaches* (2nd ed.). Thousand Oak, CA: Sage.

Das, T. K., & Teng, B-S. (1998). Between trust and control: developing confidence in partner cooperation in alliances. *Academy Of Management Review, 23*(3), 491-512.

Denzin, N. K., & Lincoln, Y. S. (2000). *Handbook of Qualitative Research* (2nd ed.). London: Sage Publications.

Department for International Development (2009). *Eliminating World Poverty: Building Our Common Future*. Background paper to the DFID conference on the future of international development, March 2009. London: DFID

Dixon, J., Taniguchi, K., Wattenbach, W. & Tanyeri-Arbur, A. (2004). *Smallholders, globalization and policy analysis*. AGSF Occasional Paper 5. Rome: FAO. Retrieved online on 03/06/2013 at http://www.fao.org/docrep/007/y5784e/y5784e00.htm#Contents

Dwyer, R. F., Schurr, P. H., & Oh, S. (1987). Developing buyer-seller relationships. *Journal of Marketing*, *51*(2), 11-27

Dyer, J. H. (1997). Effective interfirm collaboration: how firms minimize transaction costs and maximize transaction value. *Strategic Management Journal*, *18*, 535–556.

Elkington, J. (1997). *Cannibals with forks: The triple bottom line of 21st century business*. Oxford: Capstone Publishing.

Ellram, L. M. (1995). A managerial guideline for the development and implementation of purchasing partnerships. *Journal of Supply Chain Management*, *31*(2), 9-16.

Emerson, R. M. (1962). Power-dependence relations. *American Sociological Review*, *27*, 31-41.

Ertmer, P. A. (1997). Common qualitative research designs. In P. D. Leedy (with contributions by T. J. Newby, & P. A. Ertmer), *Practical research: Planning and design (6th Ed.)* (pp. 155-172). New Jersey: Merrill.

Fearne, A., Yawson, D. E., Buxton, A., & Tait, J. (2012). *Measuring fairness in supply chain trading relationships: A methodology guide*. London/Kent/Oxford: IIED/Kent Business School/Oxfam GB/Unilever.

Fischer, M. L. (1997). What is the right supply chain for your product? *Harvard Business Review, 2,* 105-116.

Ford, D., Gadde, L. E., Hakansson, H., Lundgren, A., Snehota, I., Turnbull, P., & Wilson, D. (1998). *Managing Business Relationships*. Chichester: John Wiley & Sons.

Frazier, G. L. (1983). On the measurement of interfirm power in channels of distribution. *Journal of Marketing Research, 20*, 158-166.

Freeman, R. E., & Reed, D. L. (1983). Stockholders and stakeholders: A new perspective on corporate governance. *California Management Review*, 25(3), 88-106.

French, J. R. P., & Raven, B. (1959). The bases of social power. In D. Cartwright (Ed.), *Studies in social power* (pp. 150–167). Ann Arbor: University of Michigan Press.

Galt, J. D. A., & Dale, B. G. (1991). Supplier development: a British case study. *International Journal of Purchasing and Materials Management, 27*(1), 16–22.

Ganesan, S., Brown, S. P., Mariadoss, B. J., & Ho, H. D. (2010). Buffering and amplifying effects of relationship commitment in business-to-business relationships. *Journal of Marketing Research*, *47*(2), 361-373.

Gassenheimer, J. B., Houston, F. S., & Davis, J. C. (1998). The role of economic value, social value, and perceptions of fairness in interorganizational relationship retention decisions. *Journal of the Academy of Marketing Science*, *26*(4), 322-337.

Gedeon, I-M., Fearne, A., & Poole, N. (2009). The role of inter-personal relationships in the dissolution of business relationships. *Journal of Business and Industrial Marketing*, *24*(3), 218-226.

Geyskens, I., Steenkamp, J. E. M., & Kumar, N. (1999). A Meta-Analysis of Satisfaction in Marketing Channel Relationships. *Journal of Marketing Research*, *36*, 223–238.

Geyskens, I., Steenkamp, J. E. M., Schœr, L. K., & Kumar, N. (1996). The effects of trust and interdependence on relationship commitment: A trans-Atlantic study. *International Journal of Research in Marketing*, *13*, 303-317.

Glaser, B. (1978). *Theoretical Sensitivity: Advances in the methodology of grounded theory*. Mill Valley, CA: Sociology Press.

Glaser, B. (1992). *Emergence vs. Forcing: Basics of Grounded Theory Analysis*. Mill Valley, CA: Sociology Press.

Glaser, B., & Strauss, A. (1967). *The Discovery of Grounded Theory*. Chicago, IL: Aldine.

Golja, T., & Pozega, S. (2012). Inclusive Business – What It Is All About? Managing Inclusive Companies. *International Review of Management and Marketing*, *2*(1), 22-42

Goulding, C. (1998). Grounded theory: the missing methodology on the interpretivist agenda. *Qualitative Market Research: An International Journal*, *1*(1), 50-57.

Goulding, C. (2001). Grounded Theory: A Magical Formula or a Potential Nightmare. *Marketing Review*, *2*(1), 21-33.

Gradl, C., Ströh de Martinez, C., Kükenshöner, C., & Schmidt, J. (2012). *Growing business with smallholders: A guide to inclusive agribusiness*. Bonn: GIZ.

Gulati, R. (1995). Does familiarity breed trust? The implications of repeated ties for contractual choice in alliances. *Academy Of Management Journal, 38*(1), 85-112.

Handfield, R. B., Krause, D. R., Scannell, T. V., & Monczka, R. M. (2000). Avoid the pitfalls in supplier development. *Sloan Management Review, 41*(2), 37-49.

Hayes, R. H. (2000). Toward a 'new architecture' for POM. *Production and Operations Management*, *9*(2), 105-110.

Henwood, K., & Pidgeon, N. F. (1992). Qualitative research and psychological theorising. *British Journal of Psychology*, *83*, 97-111.

Hills, G., Russell, P., Borgonovi, V. Doty, A. & Lyer, L. (2012). *Shared value in emerging markets: How multinational corporations are redefining business strategies to reach poor or vulnerable populations*. FSG. Retrieved online on 05/09/2012 at http://www.fsg.org/Portals/0/Uploads/Documents/PDF/Shared_Value_in_Emerging_Markets.pdf

HLPE. (2013). *Investing in smallholder agriculture for food security*. A report by the High Level Panel of Experts on Food Security and Nutrition of the Committee on World Food Security, Rome.

Hornibrook, S., Fearne, A., Lazzarin, M. (2009). Exploring the association between fairness and organizational outcomes in supply chain relationships. *International Journal of Retail and Distribution Management, 37*(9), 790-803.

Humphreys, P. K., Li, W. L., & Chan, L. Y. (2004). The impact of supplier development on buyer–supplier performance. *Omega, 32*, 131-143.

Hunt, S. D., & Nevin, J. R. (1974). Power in a channel of distribution: sources and consequences. *Journal of Marketing Research*, *11*, 186-193.

Huxham, C. (1996). *Creating collaborative advantage*. London: SAGE Publications.

IBGE [Brazilian Institute of Geography and Statistics]. (2006). *Censo agropecuário 2006. Brasil, Grandes Regiões e Unidades da Federação*. Rio de Janeiro, Brasil.

Inkpen, A. C., & Tsang, E. W. K. (2005). Social capital, networks, and knowledge transfer. *Academy Of Management Review, 30*(1), 146-165.

Instituto Ethos. (2009). *Práticas e Perspectivas da Responsabilidade Social Empresarial no Brasil 2008*. São Paulo: Instituto Ethos.

Jap, S. D. (1999). Pie-expansion efforts: collaboration processes in buyer-supplier relationships. *Journal of Marketing Research, 36*(4), 461-475.

Karnani, A. (2007). The mirage of marketing to the bottom of the pyramid: How the private sector can help alleviate poverty. *California Management Review*, *49*(4), 90-111.

Krause, D. R., & Ellram, L. M. (1997). Critical elements of supplier development. *European Journal of Purchasing and Supply Management, 3,* 21-31

Kumar, N. (1996). The power of trust in manufacturer-retailer relationships. *Harvard Business Review*, *74*(6), 92-106.

Kumar, N., Scheer, L. K., & Steenkamp, J.-B.E.M. (1995). The effects of perceived interdependence on dealer attitudes. *Journal of Marketing Research*, *32*(3), 348-356.

Kvale, S. (1996). *InterViews: An introduction to qualitative research interviewing*. California: Sage Publications.

La Londe, B. J., & Masters, J. M. (1994). Emerging logistics strategies: blueprints for the next century. *International Journal of Physical Distribution & Logistics Management*, *24*(7), 35 - 47

Lambert, D. M. (2008). *Supply chain management: processes, partnerships, performance* (3rd ed.). Sarasota, FL: Supply Chain Management Institute.

Lambert, D. M., Cooper, M. C., & Pagh, J. D. (1998). Supply chain management: implementation and research opportunities. *The International Journal of Logistics Management*, 9(2), 1-19.

Landrum, N. (2007). Advancing the base of the pyramid debate. *Strategic Management Review, 1*, 1-12.

Larson, P. D., & Kulchitsky, J. D. (1998). Single Sourcing and Supplier Certification: Performance and Relationship Implications. *Industrial Marketing Management, 27*(1), 73–81.

LePine, J. A., Erez, A., & Johnson, D. E. (2002). The nature and dimensionality of organizational citizenship behaviour: a critical review and meta-analysis. *Journal of Applied Psychology*, *87*(1), 52-65.

Lettice, F., Wyatt, C., & Evans, S. (2010). Buyer–supplier partnerships during product design and development in the global automotive sector: who invests, in what and when? *International Journal of Production Economics* 127 no. 2: 309–319.

Li, S., Ragu-Nathan, B., Ragu-Nathan, T. S., & Subba Rao, S. (2006). The impact of supply chain management on competitive advantage and organizational performance. *Omega*, *34*, 107–124.

Li, W., Humphreys, P. K., Yeung, A. C. L., & Cheng, T. C. E. (2011). The impact of supplier development on buyer competitive advantage: A path analytic model. *International Journal of Production Economics, 135*(1), 353–366.

Masterson, S. S., Lewis, K., Goldman, B. M., & Taylor, M. S. (2000). Integrating justice and social exchange: the differing effects of fair procedures and treatment on work relationships. *Academy of Management Journal*, *42*(4), 738-748.

Mathieu, J. E., & Zajac, D. M. (1990). A review and meta-analysis of the antecedents, correlates and consequences of organizational commitment. *Psychological Bulletin*, *108*(2), 171-194.

McDonald, F. (1999). The importance of power in partnership relationships. *Journal of General Management*, *25*(1), 43-59.

Mentzer, J. T., Dewitt, W., Keebler, J. S., Min, S., Nix, N. W., Smith, C. D., & Zacharia, Z. G. (2001). Defining supply chain management. *Journal of Business Logistics, 22(*2), 1-25.

Miles, M. B., & Huberman, A. M. (1994). *Qualitative data analysis: An expanded sourcebook*. (2nd ed.). Thousand Oaks, California: Sage.

Miles, R. E.. Snow, C. C., & Pfefler, J. (1974). Organization environments: Concepts and issues. *Industrial Relations*, *13*, 244-264.

Modi, S. B., & Mabert, V. A. (2007). Supplier development: Improving supplier performance through knowledge transfer. *Journal of Operations Management, 25*(1), 42–64.

Monczka, R. M., Trent, R. J., & Callahan, T. J. (1993). Supply base strategies to maximize supplier performance. *International Journal of Physical Distribution & Logistic Management, 23*(4), 42–54.

Morgan, G., & Smircich, L. (1980). The Case for Qualitative Research. *Academy of Management Review*, *5*(4), 491-500.

Morgan, R. M., & Hunt, S. D. (1994). The commitment-trust theory of relationship marketing. *Journal of Marketing, 58*(3), 20-38.

Morris, M. H., & Homan, J. L. (1988). Source loyalty in organizational markets — A dyadic perspective. *Journal of Business Research*, *16*(2), 117–131.

Murphy, C. L. (1992). *Vendor Quality Management*. Burnaby, B.C.: Author.

Nagayets, O. (2005). Small farms: Current status and key trends. In *The Future of Small Farms*. Proceedings of a Research Workshop, Wye, UK, June 26-29. Washington, D.C.: International Food Policy Research Institute.

Narayanan, S., & Gulati, A. (2002). *Globalization and the smallholders: A review of issues, approaches, and implications*. Markets and Structural Studies Division, Discussion Paper No. 50. Washington, D.C.: International Food Policy Research Institute

Oliver, R. K., & Webber, M. D. (1992). Supply chain management: logistics catches up with strategy. In Christopher, M. (Eds.) *Logistics, The Strategic Issue* (pp. 63-75). London: Chapman & Hall.

Oxfam (2012). *Behind Brazil's amazing success against hunger and poverty, questions remain*. Rio+20 Brazil Case Study. http://www.oxfam.org/sites/www.oxfam.org/files/oxfam-rioplus20-case-study-brazil-jun2012.pdf

Parsons, A. (2002). What determines buyer– seller relationship quality? An investigation from the buyer's perspective. *Journal of Supply Chain Management*, *38*(2), 4 –12.

Payne, A., & Holt, S. (2001). The value concept and relationship marketing. *British Journal of Management, 12*, 159–182.

Pfeffer, J. (1981). *Power in Organizations*. Marschfield, MA: Pitman Publishing Inc.

Pidgeon, N. F., & Henwood, K. (1997). Using grounded theory in psychological research. In N. Hayes (Ed.), *Doing qualitative analysis in psychology* (pp. 245-274). East Sussex, UK: Psychology Press.

Pidgeon, N. F., Turner, B. A., & Blockley, D. I. (1991). The use of grounded theory for conceptual analysis in knowledge elicitation. *International Journal of Man-Machine Studies, 35*, 151-173.

Pilkington, A., & Fitzgerald, R. (2006). Operations management themes, concepts and relationships: a forward retrospective of IJOPM. *International Journal of Operations & Production Management*, *26*(11), 1255-1275.

Plank, R. E., & Newell, S. J. (2007). The effect of social conflict on relationship loyalty in business markets. *Industrial Marketing Management*, 36(1), 59-67.

Pozzebon, M., Petrini, M., Bandeira-de-Mello, R., & Garreau, L. (2011). Unpacking researchers' creativity and imagination in grounded theorizing: an example from IS research. *Information and Organization*, *21*, 177-193.

Prahalad, C. K., & Hart, S. (2002). The fortune at the bottom of the pyramid. *Strategy+Business*, *26*, 2-14.

PricewaterhouseCoopers Brasil Ltda. (2012). *Doing agribusiness in Brazil*. São Paulo. http://www.pwc.com.br/pt/estudos-pesquisas/assets/ag-12-engl.pdf

Prowse, M. (2008). Making contract farming work with cooperatives. *Capacity.org*, *34*, 11-14.

Reichheld, f. (1996). *The loyalty effect: The hidden force behind growth, profits and lasting value.* Harvard Business School Press.

Rennie. D. L. (1998). Grounded theory methodology: The pressing need for a coherent logic of justification. *Theory & Psychology*, *8*(1), 101-119.

Roth, A. V., Tsay, A. A., Pullman, M. E., & Gray, J. V. (2008). Unraveling the food supply chain: strategic insights from China and the 2007 recalls. *Journal of Supply Chain Management*, *4*(1), 22-39.

Scott, K. (2004). Relating categories in grounded theory analysis: using a conditional relationship guide and reflective coding matrix. *The Qualitative Report*, *9*(1), 113–126.

Sheth, J. N., & Sharma, A. (1997). Supplier relationships: Emerging issues and challenges. *Industrial Marketing Management*, *26*, 91–100.

Simmons, P. (2003). *Overview of smallholder contract farming in developing countries*. Rome: FAO. ftp://ftp.fao.org/docrep/fao/007/ae023e/ae023e00.pdf

Sjauw-Koen-Fa, A. R. (2012). *Framework for an inclusive food strategy*. Utrecht: Rabobank Nederland.

SNV and WBCSD (2010). *Inclusive business: Creating Value in Latin America*. Retrieved online at: http://www.wbcsd.org/Pages/EDocument/EDocumentDetails.aspx?ID=43&NoSearchContextKey=true

Soto Baquero, F., Fazzone, M., & Falconi, C. (2007). *Políticas para la agricultura familiar en América Latina y el Caribe*. Santiago, Chile: FAO-BID.

Stank, T. P., Keller, S. B., & Daugherty, P. J. (2001). Supply chain collaboration and logistical service performance. *Journal of Business Logistics, 22*(1), 29-48.

Strauss, A. L. (1987). *Qualitative Analysis for Social Scientists*. Cambridge, CA: Cambridge University Press.

Strauss, A. L., & Corbin, J. (1998). *Basics of Qualitative Research: Grounded Theory Procedures and Techniques* (2nd ed.). Thousand Oaks, CA: Sage.

Strauss, A., & Corbin, J. (1990). *Basics of qualitative research: Grounded theory procedures and techniques*. Newbury Park, CA: Sage.

Strauss, A., & Corbin, J. (1994). Grounded Theory Methodology: an overview. In N. K. Denzin, & Y. S. Lincoln (Eds.), *Handbook of Qualitative Research*. Thousand Oaks, CA: Sage.

Suddaby, R. (2006). From the editors: what grounded theory is not. *Academy of Management Journal*, *49*(4), 633-642.

Tenório, R. (2011). Inclusão pelo campo. *Desafios do Desenvolvimento*, 64, 48-56.

Thomas, V. (2006). *From inside Brazil. Development in a land of contrasts*. Palo Alto: Stanford University Press.

Toulmin, C. and Guèye, B. (2003). *Transformations in West African agriculture and the role of family farms*. Drylands Issue Paper No. 123. London: IIED.

Van Djik, M. P., & Trienekens, J. (2012). *Global value chains: Linking local producers from developing countries to international markets*. Amsterdam: Amsterdam University Press.

Vermeulen, S., & Cotula, L. (2010). *Making the most of agricultural investment: A survey of business models that provide opportunities for smallholders*. Washington D.C./London: FAO/IIED.

Von Braun, J. (2005). Small scale farmers in a liberalized trade environment. In T. Huvio, J. Kola, & T. Lundström, *Small-scale farmers in a liberalised trade environment*, Proceedings of the seminar. October 18–19, 2004, Haikko, Finland. Department of Economics and Management Publications No. 38. Agricultural Policy. Helsinki: University of Helsinki.

Vorley, W., Lundy, M., & MacGregor, J. (2008). *Business models that are inclusive of small farmers.* London: IIED.

WBCSD [World Business Council for Sustainable Development]. (2005). *Business for development: Business solutions in support of the millennium development goals*. Geneva: WBCSD. Online at http://www.wbcsd.org/web/publications/biz4dev-reprint.pdf

WEF [World Economic Forum]. (2009). *The next billions: Business strategies to enhance food value chains and empower the poor*. Geneva: WEF.

WEF. (2013). *Achieving the New Vision for Agriculture: New models for action*. Geneva: New Vision for Agriculture Initiative, WEF.

Whetten, D. A. (1989). What constitutes a theoretical contribution? *Academy of Management Review*, *14*(4), 490-495.

Wilkinson, J. (2009). The globalization of agribusiness and developing world food systems. *Monthly Review*, *61*(4), 38-50.

Wilson, H. S., & Hutchinson, S. A. (1991). Triangulation of qualitative methods: Heideggerian hermeneutics and grounded theory. Qualitative Health Research, 1(2), 263-276.

World Bank (2007). World Development Report 2008: Agriculture for Development. Washington, DC: The World Bank.

Yunus, M. (2007). *Creating a world without poverty: Social Business and the future of capitalism*. New York: Public Affairs.

Zapata, C., Vazquez-Brust, D., & Plaza-Ubeda, J. (2010). *Productive Inclusion of Smallholder Farmers in Brazil's Biodiesel Value Chain: Programme Design, Institutional Incentives and Stakeholder Constraints*. IPC-IG Working Papers, Number 73. Brasilia, Brazil: UNDP/ International Policy Center for Inclusive Growth.

APPENDIX 1. Interview Guide for MNC and Local Buyer Managers

1. What is your job position and what do your responsibilities consist in?

2. What does “inclusive business” mean to you and to the company?

3. How and why does the company work with smallholder producers in Brazil?

4. What are the characteristics of the smallholders you source from (Size of land, level of education, level of income, production volume, degree of technology incorporation, etc.)?

5. What sourcing arrangement do you use to work with these suppliers (contract farming, deep procurement, spot purchasing, no formal arrangement, etc.)?

6. What types of requirements do you have with these suppliers? How do you ensure that they follow and respect your product standards?

7. How are prices negotiated with the suppliers?

8. What types of services and assistance do you bring to your suppliers?

9. What are the benefits and the main challenges of sourcing from smallholders?

10. What do you think are the main difficulties and challenges for the small producers you are working with?

11. How does the company manage these supplier relationships? What is important when you recruit the people in charge of managing these supplier relationships?

12. To what extent would you say you consider these suppliers as partners? What is important for the company in its partnerships?

13. How do you measure your social impact with smallholder producers? Is this an important subject for your company?

14. In your opinion, what improvements could be made in the relationship between your company and its smallholder suppliers in Brazil?

APPENDIX 2. Interview guide for Field Supervisor

1. What is your job position and what do your responsibilities consist in?
2. Who are the smallholder producers you manage? What are their characteristics?
3. How do you establish and maintain relationships with the company's smallholder suppliers?
4. How often do you interact with the producers? How would you describe your personal relationship with them?
5. How do you establish a partnership relation with these producers?
6. How do you get your smallholder suppliers to follow the company's production requirements?
7. What would happen if a producer was having difficulties following these requirements?
8. What are the challenges you encounter in working with these producers?
9. What do you think are the challenges of the producers in supplying the company?
10. How do you handle situations of conflict, disagreement or tension with a producer?
11. Give an example of a supplier relationship that was terminated. What were the reasons and how was the relationship dissolved?
12. To what extent would you say that there is a cultural difference between you (or the company) and the producers? How do you overcome this barrier?
13. What is important for you in your job?
14. According to you, what would the ideal relationship look like with these producers? To what extent do you think that companies can have this ideal relationship and why?

APPENDIX 3. Interview Guide for Smallholder Producers

1. What do you do? What is a typical day like for you?

2. Who else works with you on the farm?

3. When did you start working with the company? Describe what it has been like working with them? What has changed in your life since you started working with this company?

4. Why did you decide to sell to this company rather than to another buyer? What attracts you to work with them?

5. How do you typically negotiate with the company? Do you obtain satisfaction for the price you ask for?

6. What are the advantages and benefits of working with this company?

7. What are the challenges of working with this company?

8. What does the company ask of you? How do you manage to comply with these requirements?

9. Do you feel that the company is powerful? If yes, in what way?

10. What if the company stopped purchasing from you?

11. What if another buyer with a better price came along? Would you switch companies? Why or why not?

12. How would you describe your relationship with the company's field supervisor?

13. What do you imagine the future like for you in 10 years from now?

14. In your opinion, how could the relationship with the company improve?

15. What would the "perfect" relationship with the company be like for you?

APPENDIX 4. List of Codes from Open Coding

First Open Coding	Number of quotations	Second Coding	Number of quotations
Access to credit	10	Access to credit	10
Advantage of local players over big companies	13	Adapting to standards	5
Agricultura familiar	5	Advantage of local players vs. MNCs	28
Availability on the field	22	Availability on the field	22
Brazilian Agribusiness	6	Bureaucracy	6
Bureaucracy	6	Buyer-supplier dialogue	18
Business necessity	7	Buyer-supplier loyalty	25
Buyer-supplier dialogue	18	Buyer consistency	9
Buyer-supplier infidelity	2	Buyer Power	17
Buyer bankruptcy	8	Technical Assistance	42
Buyer consistency	8	Challenges-Market Access	11
Buyer Power	10	Commercial vs. Relational Exchange	10
Capacity building	42	Commitment	15
Chain intermediaries	12	Compliance	27
Challenges-Market Access	9	Consented slavery	6
Coercive power	1	Contract Farming	26
Commercial vs. Relational Exchange	10	Cooperativism	16
Commitment	12	Core business strategy	25
Company strategies for supplier retention	18	Cost of labor	6
Compensating productivity	6	Degree of chain intermediation	19
Compensating quality	10	Difficulty to grow	3
Competition	6	Exclusivity	12
Compliance	20	Expert power	7
Consented slavery	6	Family Agriculture	18
Continuity in the farming profession	25	Farmer's will to grow	10
Contract Farming	15	Farmer Dependence	25
Cooperative vs. Large Company	12	Farmer education	8
Cooperativism	16	Farmer grouping mechanisms	30
Core business strategy	8	Financial investments of the producer	22
Corporate vs. the field	6	Future orientation	13
Cost of labor	3	Geographical location of the farmer	5
Cross-sector partnerships	2	Goodwill	2
CSR Strategies	14	Governance mechanisms	12
Debt	2	Importance of interpersonal relationships	12
Defining the smallholder farmer	3	Improving income	24
Dependence	22	Independence of the farmer	9
Difficulty to grow	3	Inter-organizational differences	7
Direct contact	7	Interpersonal skills	5
Diversification of production	1	Keep one's word	5
Enforceable governance	1	Long-term relationships	9
Environment	1	CSR Strategies	24
Equality	3	MNC standards	8
Exclusivity	12	Monitoring Strategies	5

Expert power	7
Family	2
Family labor	9
Farmer challenges	13
Farmer grouping mechanisms	30
Field Representative	5
Financial education	1
Financial investments of the producer	20
Financial sustainability	8
Finding new suppliers	3
Formalizing through contracts	11
Future orientation	13
Geographical location of the farmer	5
Goodwill	2
Growing in scale	13
Hiring labor	3
Importance of interpersonal relationships	6
Improving income	14
Incentivizing quality	9
Independence of the farmer	9
Informality	1
Infrastructure	2
Innovation	1
Integration vs. Independence	4
Inter-organizational differences	1
Interpersonal skills	4
Investing in relationships	6
Keep one's word	4
License to operate	1
Local buyers	5
Local retail	1
Long-term relationships	9
Marketing	5
Monitoring/Controlling	5
Monopsony	6
Motivation	13
Mutual commitment	3
Need for governmental support	4
Negotiation	16
Negotiation imbalances	7
Opportunism	1
Partnership solidarity	7
Perception of fairness	13
Personal relationships	11
Price as the most important criteria	14
Price policies	33
Price variability	7
Pride	2
Producer fidelity	24
Producer negotiation power	3
Producer risk aversion	12
Product	1

Motivation	32
Negotiation	24
Organizational Citizenship Behaviors	1
Partnership Solidarity	8
Perception of fairness	16
Personal relationships	11
Price as the most important criteria	14
Price policies	33
Price variability	7
Producer negotiation power	4
Producer risk aversion	16
Profitability	14
Quality	13
Receiving payment	30
Redistributing benefits	6
Reputation	3
Resistance	16
Respect	8
Reward	25
Role of field staff	18
Rural culture	32
Security	28
Selling to retail	9
Services and Inputs	11
Sharing risks and responsibilities	11
Smallholder realities	16
Supplier retention	22
Technology transfers	10
Transparency	21
Trust	27
Understanding the producer	15
Use of non-coercive power	5
Voice and being listened to	17
Volume	15
Win-win partnerships	18
Partnership values	28
Working with large companies	35
Working with smallholders	19
Total nb of codes: 82	
Total nb of quotations: 1256	

Quality	13
Reaching standards	10
Receiving payment	30
Redistributing benefits	6
Reliability	1
Remaining "atrasado"	5
Reputation	2
Resistance	11
Respect	8
retaining suppliers	1
Reward	6
Role of field staff	16
Rural culture	26
Rural development	5
Security	28
Selling to consumers	1
Selling to retail	6
Services and Inputs	11
Sharing risks and responsibilities	11
Social impact of the company	2
Solidarity	1
Technical education	8
Technology transfers	9
Transaction costs	2
Transparency	21
Trust	27
Understanding the producer	11
Value orientation	2
Valuing the farmer's profession	4
Vertical integration	12
Voice and being listened to	17
Volume	15
Will to grow	5
Willingness to change	6
Win-win partnerships	18
Working as partners	22
Working with large companies	35
Working with smallholders	10
Total nb of codes: 134 **Total nb of quotation: 1256**	

APPENDIX 5. Categories from Axial Coding and Selective Coding

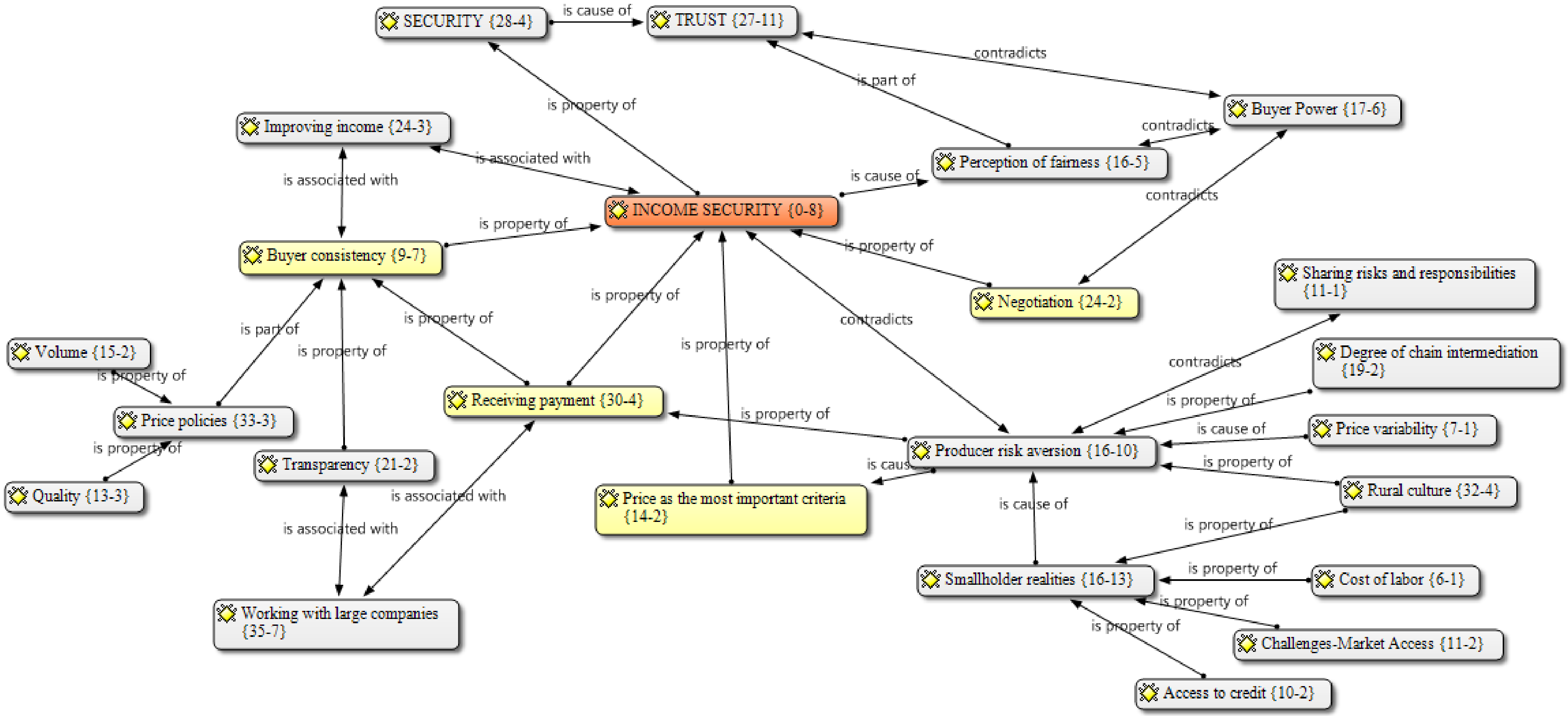
List of Categories from Axial Coding

1	Income Security
2	Compliance
3	Interpersonal Relationships
4	Power Dynamics
5	Inter-organizational Differences
6	Partnership Orientation

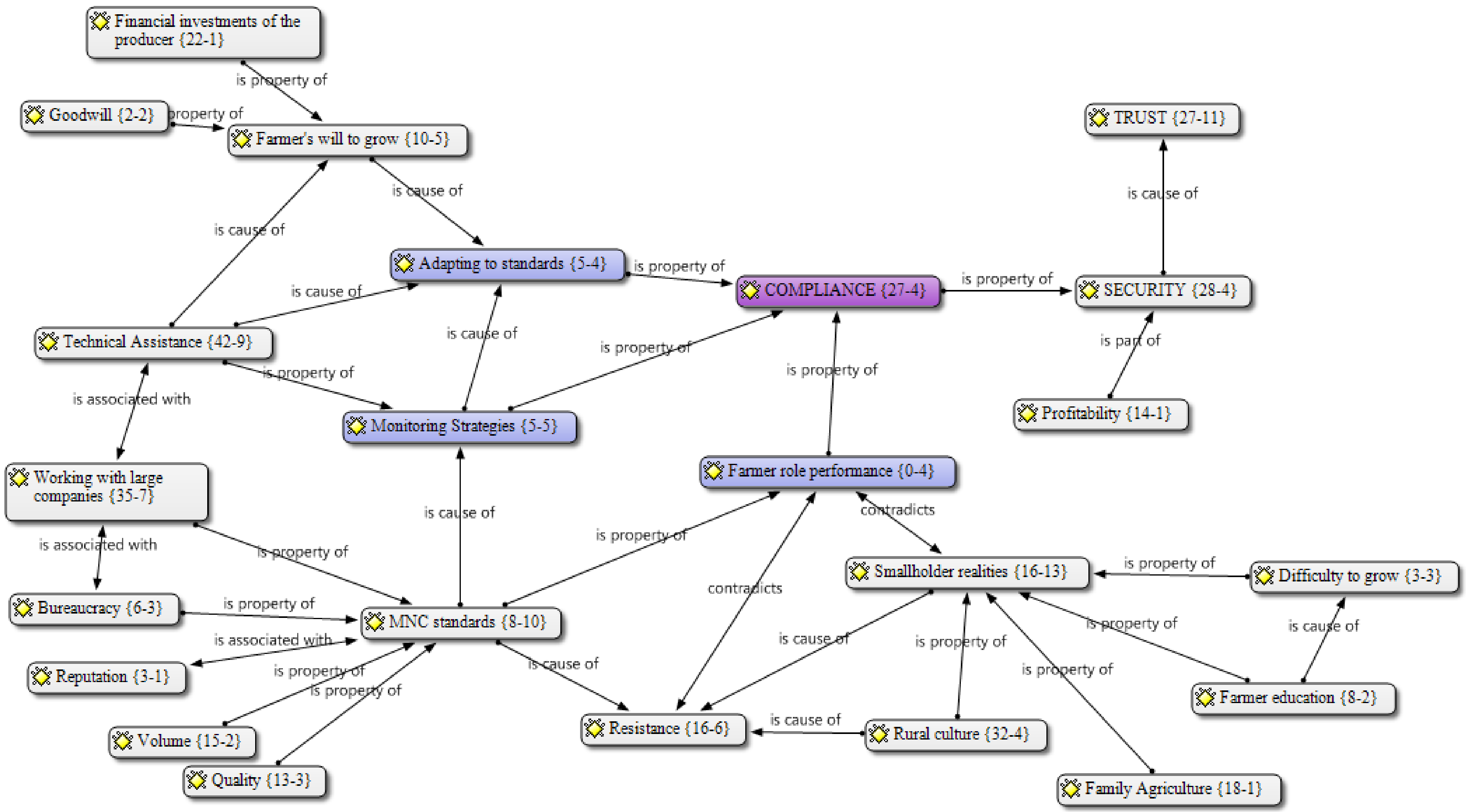
List of Categories from Selective Coding

1	Perception of Fairness
2	Trust
3	Interdependence
4	Commitment

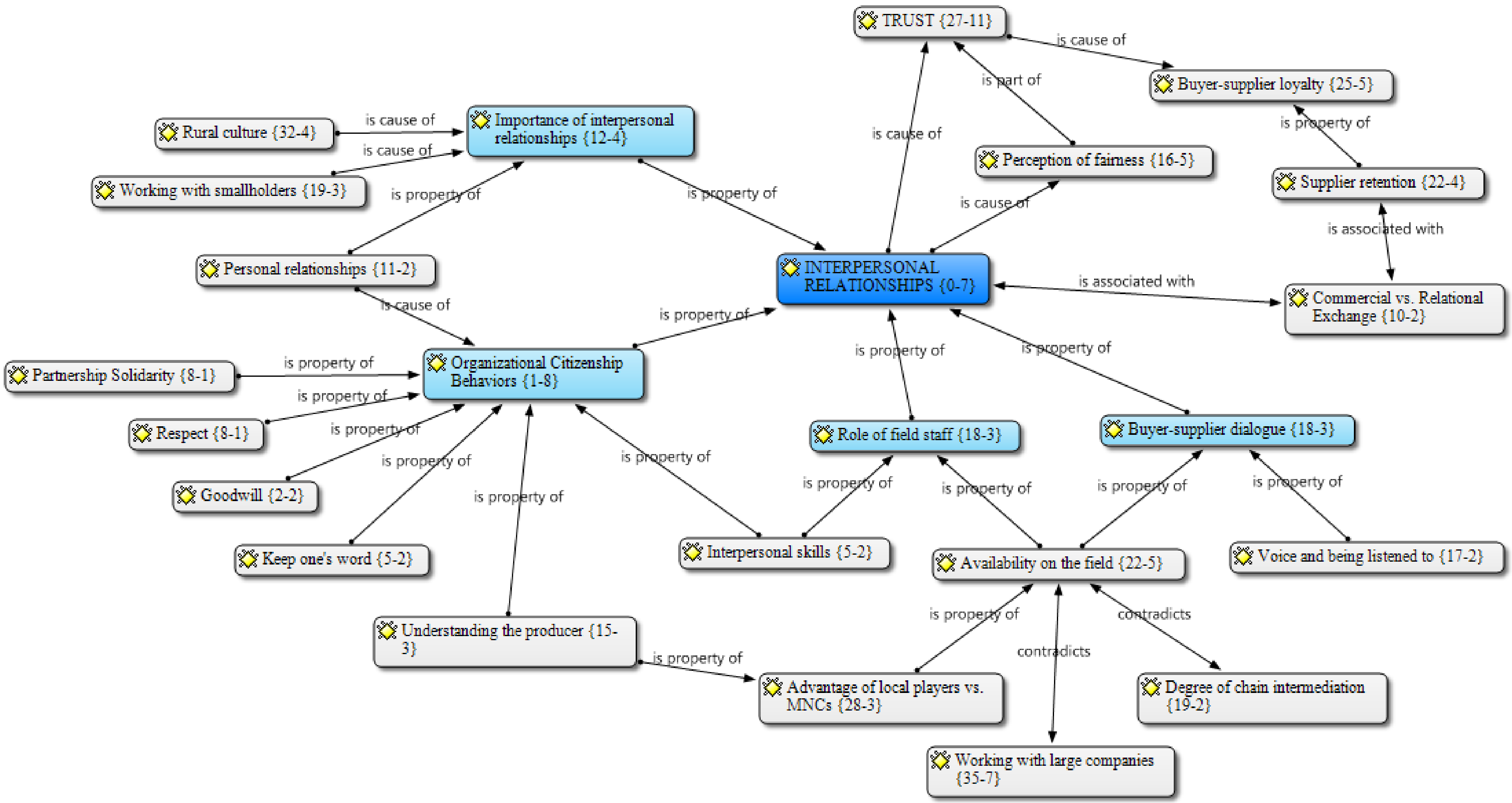
1. *Income Security*



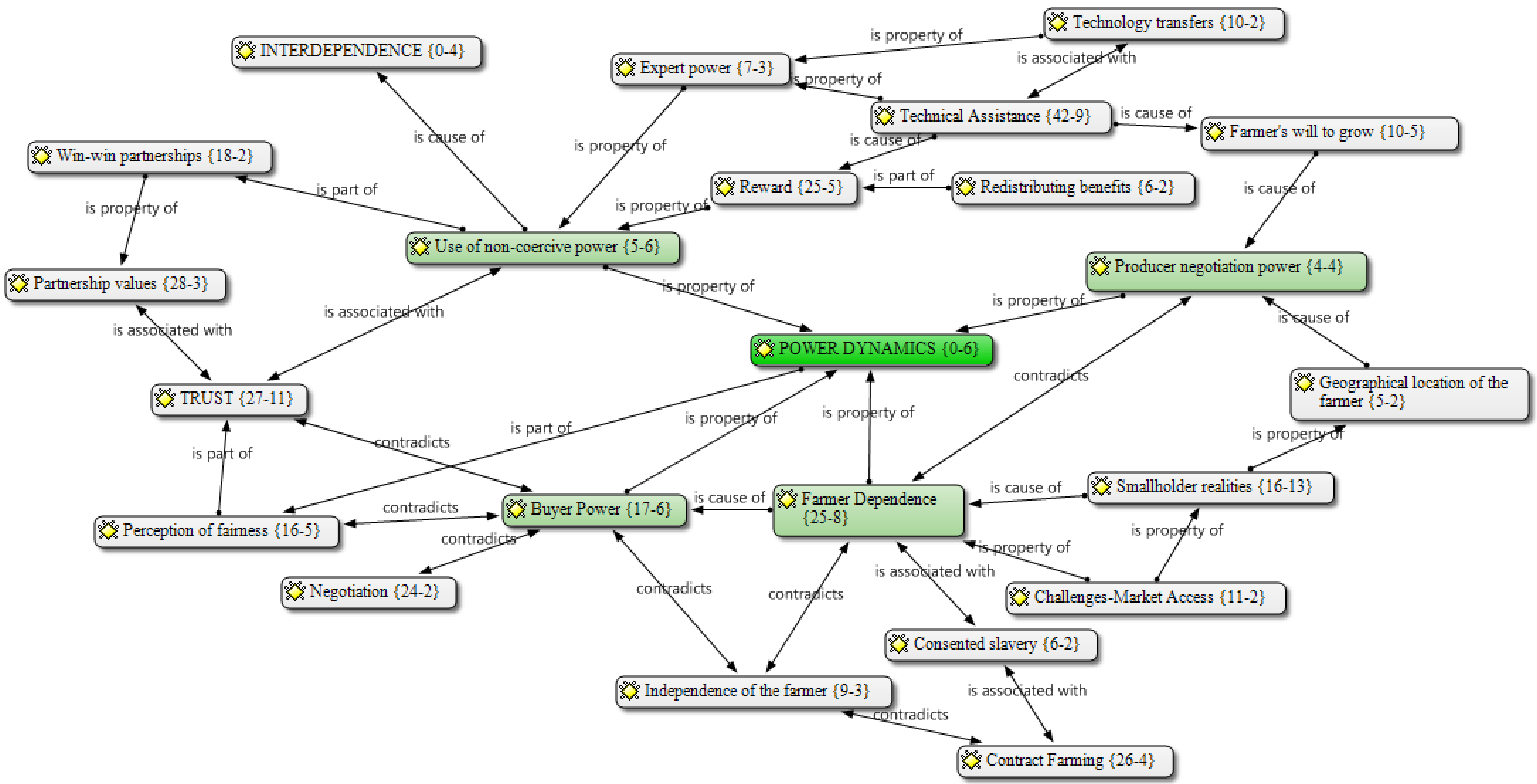
2. Compliance



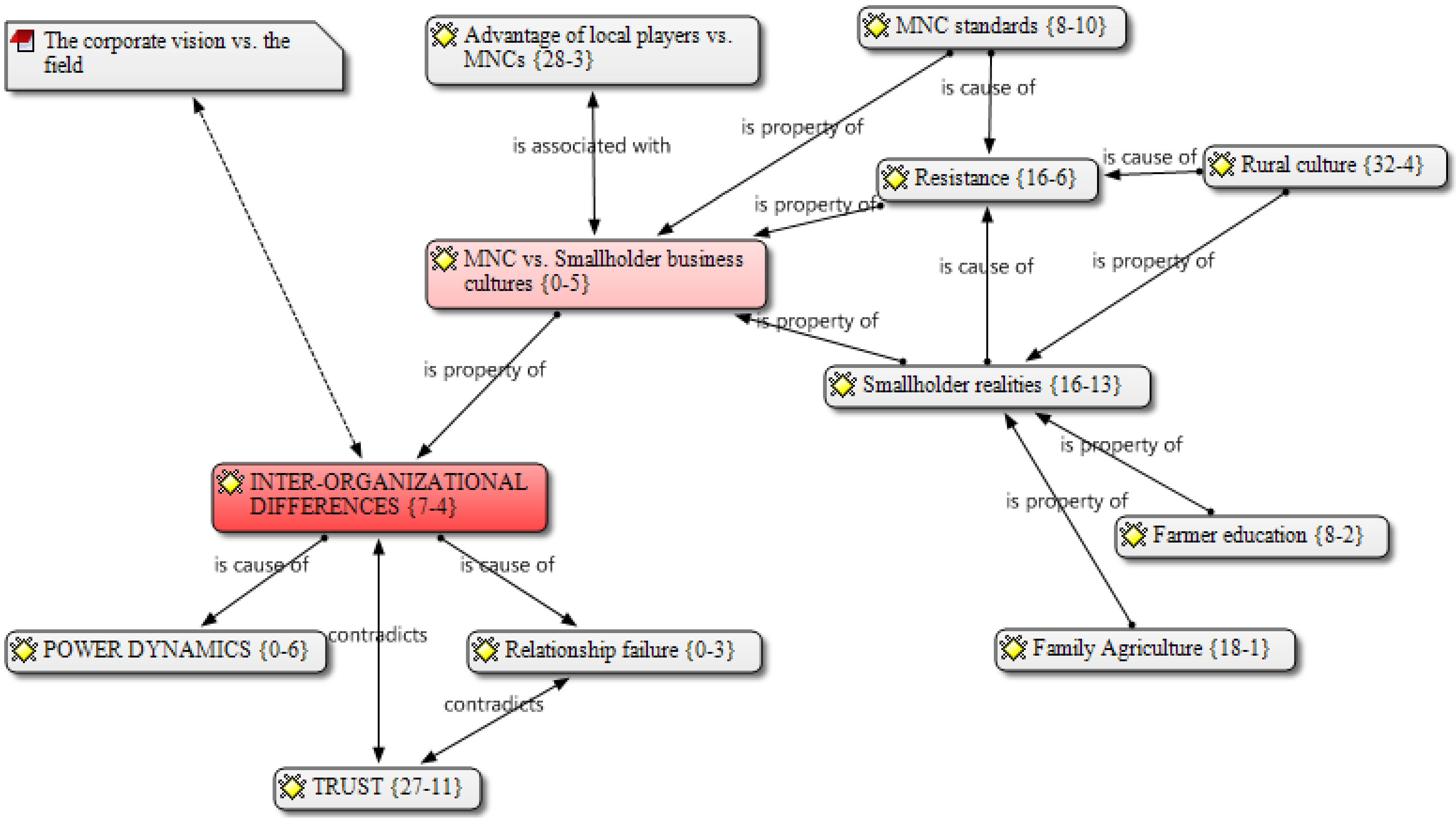
3. Interpersonal Relationships



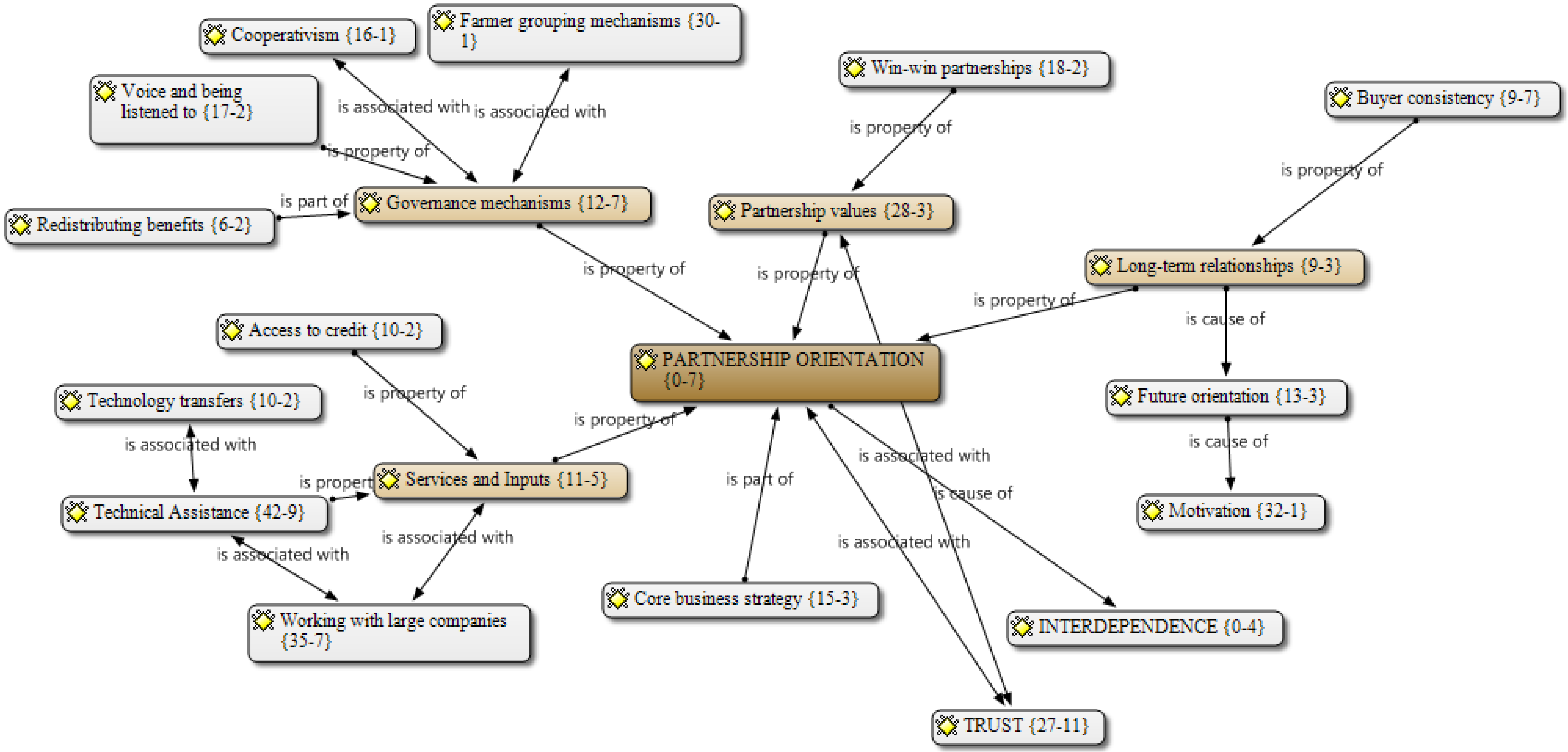
4. Power Dynamics



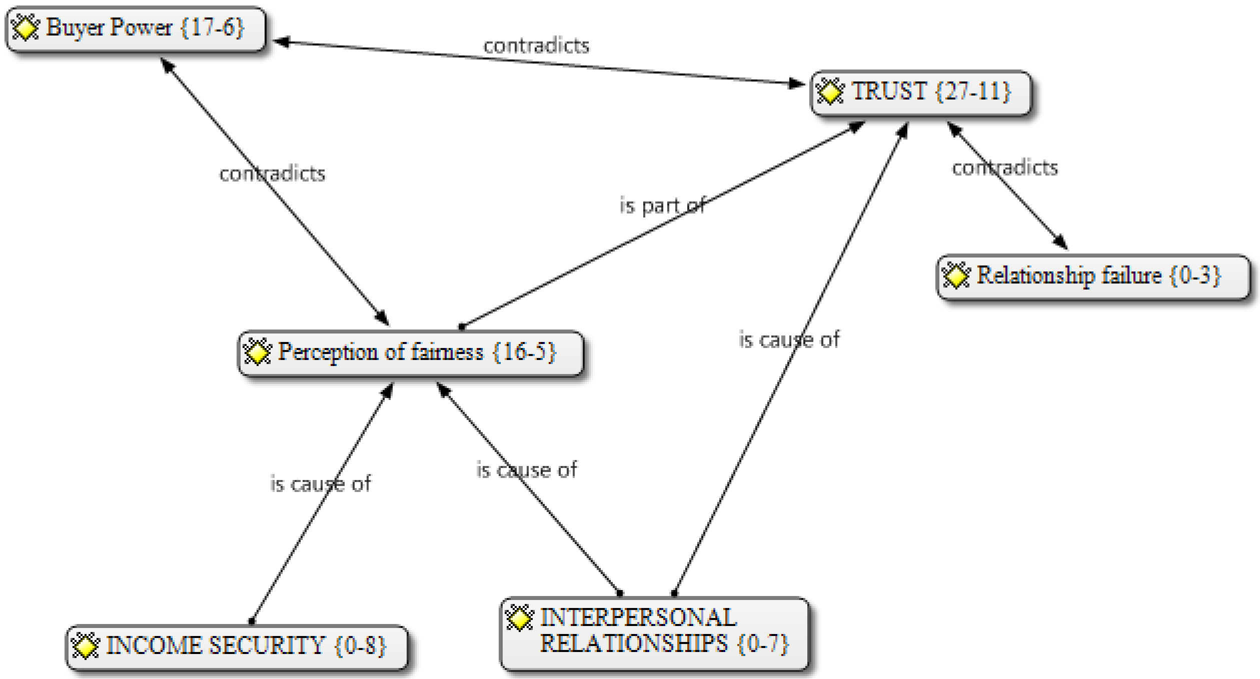
5. Inter-organizational Differences



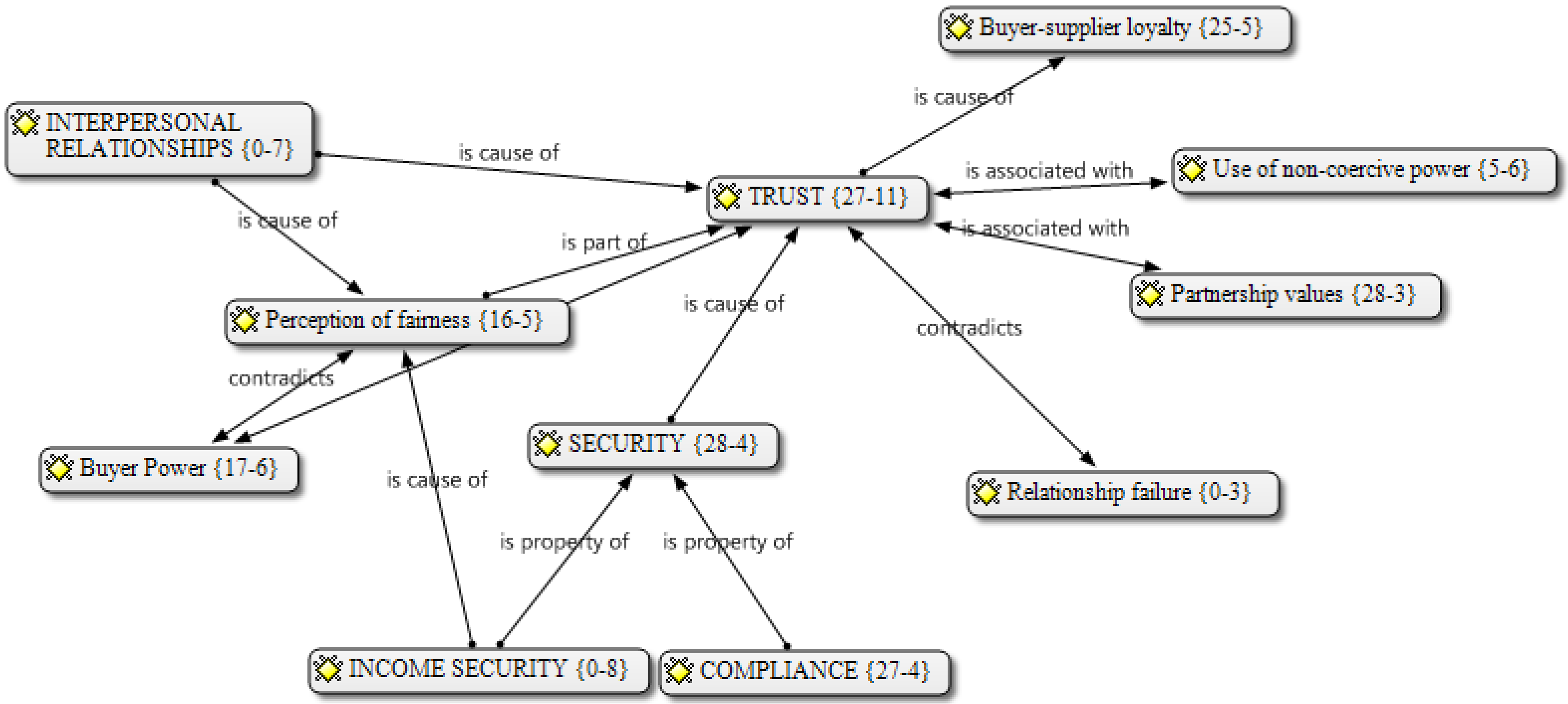
6. Partnership Orientation



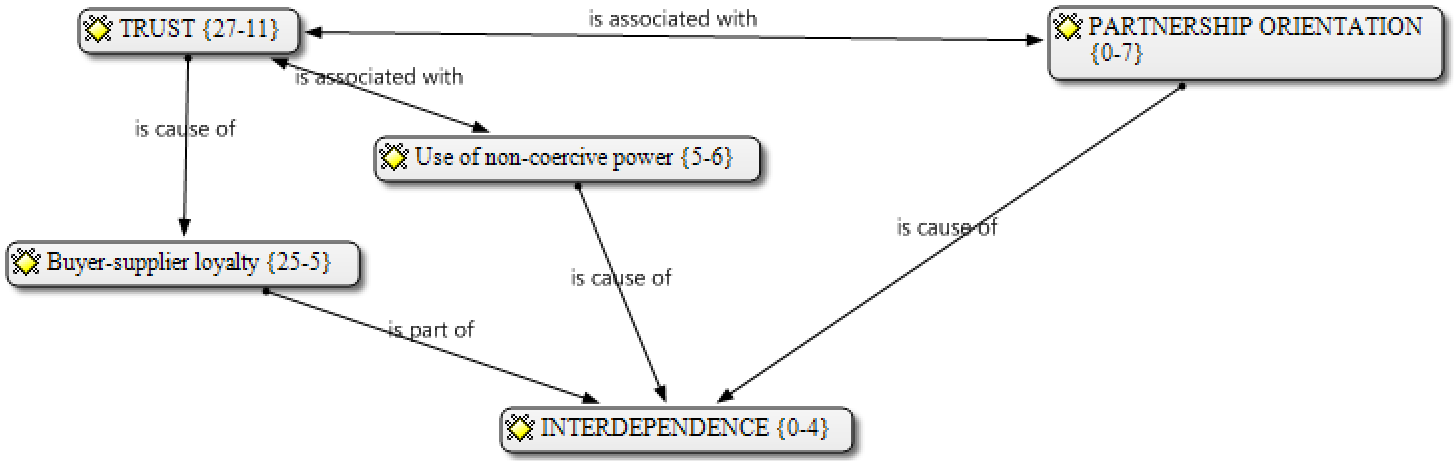
7. Perception of Fairness



8. Trust


Buyer-supplier loyalty {25-5}
INTERPERSONAL RELATIONSHIPS {0-7}
is cause of
is cause of
TRUST {27-11}
is associated with
Use of non-coercive power {5-6}
is associated with
is cause of
is part of
Partnership values {28-3}
Perception of fairness {16-5}
is cause of
contradicts
contradicts
Buyer Power {17-6}
SECURITY {28-4}
Relationship failure {0-3}
is cause of
is property of
is property of
INCOME SECURITY {0-8}
COMPLIANCE {27-4}

9. Interdependence



10. Commitment