VERTICAL COORDINATION AND CHAIN POWER IN THE DISTRIBUTION OF FOOD

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During the last decade, the retail of consumer goods has changed dramatically in Norway and in the Nordic countries. In particular, the trade once dominated by independent merchants usually controlling small corporate entities is now dominated by large and nation-wide retail chains controlling a larger part of the value chain and the points of sale to the consumers. Thus, the chains have expanded horizontally *and* vertically, as they have integrated upstream and included wholesale functions. Although the chains has increased their relative power and moved the "point of interception" versus the producers one step back in the supply chain, the long term outcomes of these changes are not given as the cooperative industry still are dominant actors in the supply chain. The paper proposes a conceptual framework for understanding these changes and the potential consequences of the changed power relations. The basic framework builds on contract and negotiation theory. Next, the basic model is extended to account for power relations. The paper argues that by adopting collaborative strategies across organizational boundaries throughout the supply chain, each individual firm as well as the consumers are likely to gain from it.

INTRODUCTION

This paper seeks to explore the potential for cooperation in the distribution chain for agricultural food products (dairy products, meat, and fruit and vegetables) in Norway. In particular, we will be interested in vertical coordination throughout the whole distribution channel. During the last decade, retail chains have increased their relative power versus the agricultural industry (primary producers and processing industry). While so far the retail chains seem to have used this power to lower prices and increased their profitability, the agricultural industry seems to be operating under increased economic pressure. The current debate on agricultural food production in Norway is to some extent painting a problematic future for the industry if they do not adapt to changes in legislation, increased competition from import, structural change in the processing industry, changing consumer habits and increased attention given to consumer welfare. This paper will not cover this wide range of forces for change, but focus on one particular and important structural change: the dominant role of the retail chains.

The research question this paper raises is what are the consequences of the changing power relations in the distribution channel for agricultural food products in Norway? In order to answer this research question, two additional questions will be addressed: To what extent has the changing power relations increased the potential for cooperation? Who is likely to benefit from increased cooperation?

To answer these questions a cross-discipline process view is developed. In order to understand the structural realities on the dyadic level between retailers and suppliers, we will draw on contract theory. However, as such relations most likely change over time interdependent on the interactions in the dyad, we will complement contract theory with negotiation theory, as this theory is well suited to explore consequences of changing power relationships. The perspective taken in this paper is that the changing power relations between the retail chains and the industry can have both positive and negative consequences in a moderate to long-term time perspective, depending on how the different actors in the distribution chain choose to approach the situation.

This paper is organized into three sections. **First, we present the empirical background before we develop the theoretical framework**. Finally, we discuss the implications of the framework for the supply chain for agricultural food products in Norway.

EMPIRICAL BACKGROUND

During the last decade, the retail of consumer goods has changed dramatically in Norway and in the Nordic countries. In particular, the trade once dominated by independent merchants usually controlling small entities is now dominated by large and nation-wide retail chains controlling a larger part of the value chain and the points of sale to the consumers. Thus, the chains have expanded horizontally *and* vertically, as they have integrated upstream and included wholesale functions. Although the chains have increased their relative power and moved the "point of interception" versus the producers one step back in the supply chain, the long term outcomes of these changes are not given.

Farmer owned cooperatives have dominated the agricultural food industry in Norway including the role of market regulator. However, the issues related to, and the public image of the producer side of the supply chain have been radically different during the nineties. While chains have been focused in terms of revenues, growth, and restructuring for the benefit of consumers, producers have been related to "scandalous" production, animal welfare, the worlds highest food prices even with a highly subsidized industry, dumping on the world market, inefficiency, and lately questionable business practice. Producer and chain representatives have even quarreled in the media over the question of who contributes to lower prices and consumer welfare. Thus, relationships across the supply chain have not been as good that they could have been.

In general, consumer interests were important in the nineties, and an expressed concern for the retailers, the producers, and the state. Competition between the dominant retailers has been fierce and has in the late nineties been characterized by joint Nordic initiatives in order to meet the demands in the market. Norwegian farmers have experienced an increased liberalization of the industry, and must in the future be prepared for increased competition from import and expected Nordic initiatives on the producer/supplier side. As a consequence, structural change is taking place at both ends of the supply chain in order to become more efficient and meet the market conditions.

The retailers

In Norway, the 90's were the decade when the chains became the dominant format and the chain owners the dominant actors. Today, four corporate groups account for more than 99% of sales to consumers (see Table 1. below). These, and their market shares (in 1998), are

NorgesGruppen (33.2% market share), Hakon-Gruppen (27.7%), NKL/Forbrukersamvirket (COOP Norway 25.2%), and Reitangruppen (13.7%). Other actors accounted for only 0.2% of the market. In 1990, the same four groups had a market share of 46% of a 58.5 billion NOK market. Of these 46 %, COOP Norway accounted for one half, Rema 1000 about 6%, and Hakon-Gruppen about 10%. NorgesGruppen, formally founded in 1995, represented about 7% of the revenues through different independent chain formats. However, in 1990 still 54% of the revenues was controlled by smaller chain formats and independent retailers. By controlling almost the total sales to consumers in 1999, these four dominating actors have increased their power dramatically during the 90's (COOP Norway has had a relative stable market share around 25% during the nineties).

PLEASE INSERT TABLE 1. ABOUT HERE

Chain market shares

NKL/Forbrukersamvirket already a dominant actor in 1990 with a market-share of 22.8% increased to 26% in 1995 and had a share of 25.2% in 1998. However, the other groups grew fast: Reitangruppen from 5.7% in 1990 to 11.8% in 1995 and to 13.7% in 1998, and Hakon-Gruppen from 10.2% in 1990 to 28.6% in 1995 and to 27.7 in 1998. NorgesGruppen, founded January 1st 1995, started out on 32.1% increasing to 33.2% in 1998.

Integration of wholesale functions

AC Nielsen's yearly survey of the grocery market shows that retailers to a large extent control wholesalers through ownership. The chains have gradually taken over wholesale operations as their power have increased during the nineties. While COOP Norway through NKL has been operating their own wholesale functions for a long time, the other groups have recently realized the potential in vertical upstream integration. Hakon-Gruppen started to develop their own distribution/wholesale functions in 92/93, and had by 97 established Norway's second largest wholesale group. All distribution entities of Hakon Distribusjon were planned to be fully integrated in 1999, in order to further exploit efficiency potential. NorgesGruppen has cooperated with, and been 50% owned by wholesaler Joh. Johannson, with whom they recently formed NyeNorgesgruppen, and thus integrated vertically. Also Reitangruppen has developed their wholesale functions through RemaGross. RemaGross was incorporated into Reitangruppen in 1998, and wholesale will be removed as a profit area.

The total market for wholesale was 37,2 billions in 1998, and the chains have equally dominant positions as in the consumer market. Joh. Johannson and Nye Norgesgruppen have 38% market share, Hakon 22%, and NKL 20%. Reitangruppen, as opposed to the other groups, operates only one chain format (discount), has the lowest market share in the consumer market (13.7%) and is not as dominant as the others in the wholesale market.

Related trends

Several related changes occur at the retail end of the supply chain. As for instance:

- Retailers contract more long-term with dedicated producers on food and beverages
- A-team of suppliers in joint Nordic purchasing initiatives (an exception is agricultural products due to national legislation and EU relations).
- All retail groups cooperate in Nordic retail group initiatives
- Automatic replenishment is being introduced
- Fewer and larger stores
- Exclusion of industry representatives from the stores
- Increased focus on development and growth of private brands (except for Rema1000).
- Compared to European practice Norway has few alliances between producers and retailers. This is currently changing.

In sum we can conclude that the chains have increased their power substantially during the last decade.

The producers

Norwegian agriculture has traditionally been a well-organized and influential industry, dominated by farmer cooperatives. Before the 90's and the increasing dominance of retail chains, they were very powerful. However, as the retail chains have increased their power substantially and changed the relative power in the supply chain, the producers are still major players through their organizations. The total production value (first hand) for Norwegian agricultural food products is 25.9 billion NOK (Dagens Næringsliv week 44 1999). Landbrukssamvirket (agricultural cooperatives) has yearly revenues of 33 billion NOK from goods and equipment. Of these, cooperative businesses had revenues of 24 billions NOK in

1998 (DN May 18th 1999) Net *import* of agricultural food products in Norway in 1998 was about 1.487 billions US$ (www.landbruk.no/statistikk as of April 25th 00).

Dairies

Tine Norske Meierier is a sale and marketing organization for the dairy cooperative in Norway, owned by 25.000 milk farmers. Tine has yearly revenues of 10.8 billions NOK, and a 99.6% market share (1998, first hand, www.landbruk.no/statistikk as of April 25th 00). The cooperative is Norway's biggest food/nutrition industry, with 5000 employees. It has 73 production sites around the country, which is currently the focus for a restructuring and efficiency debate where Tine aims at reducing production sites with 50% over the next five years. Tine consists of 10 independent businesses, and the current debate also focus on the potential gains from merging these into one corporation (Aftenposten February 25th and 26th 00). In addition, the debate speculates that within few years, the dairy industry will be merged into Nordic corporations serving the increasingly Nordic chain operations of the retailers (DN June 14th 99).

Total import of dairy products (included eggs) to Norway in 1998 was 4606 tons (3981 in 1990 and relatively stable, www.landbruk.no as of April 25th 00).

Meat

Norsk Kjøttsamvirke merged to one corporate entity (from former 8 regional firms) from January 1st 2000, and is owned by 38.000 farmers. In 1999 they had revenues of 10.54 billions NOK (internal trade eliminated, DN March 21st 2000). The market share of the cooperatives was in 1998 (first hand) 76%, 60% of cutting, and 50% of processing (K. Bakke, Kjøttbransjens Landsforbund, DN June 29th 99, www.landbruk.no/statistikk as of April 25th 00). Thus, a restructuring of the industry is currently taking place, and the merger is expected to cut costs between 530 and 620 millions NOK yearly.

A survey conducted by Kjøttbransjens Landsforbund among their members suggests that suppliers of meat products that do not specialize, will be facing harsh competition as the cost-leader strategy is a though one (in the face of chain power). As compared to the dairy industry, the meat industry has a larger number of private actors offering the cooperatives and their processing industry competition.

Total import of meat and meat products to Norway was in 1998 6912 tons (4828 in 1990 and increasing steadily, www.landbruk.no/statistikk as of April 25th 00).

Fruit and vegetables

The situation regarding fruit and vegetables is different from dairy and meat production, as the import is substantial. National production in 1998 of fruit was 11.000 tons, and 112.000 tons of vegetables. In addition, 291.000 tons potatoes were produced (www.landbruk.no/statistikk as of April 25th 2000). Total import of fruit and vegetables to Norway in 1998 was 235.517 tons (324.092 in 1990 and decreasing, www.landbruk.no as of April 25th 00). However, during the first quarter of 2000 imports were up 15% (www.ssb.no). The presence of private actors is to a greater extent influencing the market as compared to the dairy and meat businesses.

Farmer owned Gartnerhallen had revenues of 1.7 billions NOK in 1997. However, in 1998 it was reduced to 76 billions, as the rest was transferred to Gro, a company jointly owned by Gartnerhallen and NorgesGruppen (DN May 18th 99, www.landbruk.no/statistikk as of April 25th 2000).

While the most dominant retail chain, NyeNorgesgruppen, has control over about 1/3 of the consumer market, Tine, the cooperative for dairy products, controls almost the entire market. Further, Norsk Kjøttsamvirke has about 50% market share for consumer products of meat. For the dairy industry, the main challenge seems to be a restructuring of the production to fewer and larger production sites, while for the meat processing industry the largest potential for rationalization seems to be related to scale in existing production sites (Borch and Stræte 1998). Regarding fruit and vegetables, there has been more competition both horizontally and vertically, as the vertical integration between retailer, wholesaler and producers (e.g. Gro) have increased and threaten producers that are not able to reach agreements. In addition, this sector is also relatively more exposed to competition from import.

Related trends

As indicated, structural change is taking place in the primary sector and the processing industry, and the current debate suggests that this will continue. Examples are:

- Restructuring of cooperatives to fewer production entities and regional distribution centers (e.g. Tine, and NNS, the meat, egg, and fruit and vegetables cooperatives in northern Norway)

- Felleskjøpet, Landteknikk, and L.O.G. are farmer owned purchasing cooperatives where restructuring processes are ongoing to increase efficiency
- Centralization of decision structure (Norsk Kjøttsamvirke, Tine)

Finally, A. Dvergsdal, Chief Board of Directors of Landbrukssamvirkets Felleskontor, wants to merge the cooperative owned businesses into a strong and influential farmer owned corporation, stating: "This is about values and balance of power in relation to the market" (DN September 20th 99).

Emerging integration

The competitive situation for the primary industry as well as for the retailers is related to both horizontal and vertical competition. In the primary industry there is competition among producers and versus substitutes, and in the distribution chain. For the retailers the competition is related to the consumer market, and upstream versus wholesale and suppliers. Both ends of the supply chain are also characterized by cooperation. The retail chains and the farmer cooperatives represents horizontal cooperation, while inclusion of wholesale and long-term contracting with suppliers and cooperative owned businesses and purchasing organizations represent vertical cooperation. In general retailers are compared to the UK, less integrated vertically in terms of controlling a *dedicated* supply chain and *full integration* of each stage of it's operations via information technology (Bell 1998). However, this is currently changing.

Fruit and vegetables

Interestingly, the retailers have given fruit and vegetables priority the last three years. This is also the business that is most exposed to competition from imports, and where the dominance of farmer owned cooperatives is weakest.

In 97, Hakon-Gruppen decided to give priority to fruit and vegetables, and signed a ten-year partnering contract with Norgesfrukt in order to create a dedicated and efficient supply chain. Norgesfrukt had previously served competitor Rema1000, and the contract came as a surprise. An expressed aim was to establish a better dialogue between producers, wholesale, and stores to offer the consumers fresh and high quality products. Fruit and vegetables accounted for about 7% of sales in Hakon stores in 97. The contract between Hakon and Norgesfrukt also define the future profit limits (in % of volume) for Norgesfrukt, where profit surplus goes to

the stores. In 1997, Hakon purchased fruit and vegetables for about 1.2 billions NOK, and the new agreement placed pressure on other suppliers in order to be the #2 supplier. Norgesfrukt received a 700 million sales guarantee yearly from Hakon, and was expected to double their revenues. In 1998, revenues were 965 millions, and Hakon bought 60% of the shares in Norgesfrukt after on year of cooperation (www.hakon.no/aar98/norgesfrukt.htm). 500 dedicated producers supply Norgesfrukt, in addition to imports.

Rema1000 is supplied with fruit from BaRe (50/50 owned joint venture between Bama and Rema) based on a 10 year partnering contract, with yearly expected revenues of 600 millions (DN August 19th 97). This contract was signed as an answer to Hakon from both Ream1000 who lost their supplier, and from Bama who did not manage to be the second supplier to Hakon. Reitangruppen bought 10% of Bama in 1999. Bama is also partly owned by Nye Norgesgruppen (about 34%, DN April 19th 99).

NyeNorgesgruppen own Gro Industrier jointly with Gartnerhallen. They have a strategic ownership share in Bama (34%). Gro and Bama hold contracts worth 1,5 billions NOK yearly.

Meat

In 1999, NorgesGruppen established the private brand "Slakter'n" in competition to the industry. Norsk Kjøtt (Gilde) and Fatland-Gruppen (private actor and second supplier) made contracts with Norgesgruppen worth 2.6 billions NOK. The main looser was Norsk Kjøttindustri (private actor) that lost 350 millions in yearly revenues. Fatland-Gruppen will also develop private brands for NorgesGruppen (DN February 19th 99). Thus, there is an emerging change related to meat.

Dairy

With regard to dairy products, Tine has 99% market share first hand, and 95% market shares in the consumer market (Borch and Stræte 1998). However, they are facing competition from new actors such as Gausdal Meieri which is currently developing their business with their own expanding base of milk farmers. Furthermore, Tine as market regulator are provided to supply milk also to their competitors, and has over the last years received competition from Synnøve Finden. Thus, the alternatives for the retailers are limited. However, Hakon has supported alternatives to Tine.

Current signals

Managing Director Bernt Aas, Landbrukssamvirkets Felleskontor, invites *the whole supply chain to make joint efforts to lower prices* (weekly paper Fritt Kjøpmannskap, April 4th 00). He also suggests that the efficiency in the meat production is generally low, and that the estimated gain potential of 600 billions must be realized (www.landbruk.no/tavle, chronicle April 16th 00). Similar estimates exist for TINE (dairy products). Furthermore, Landbrukstidende writes (March 9th 00 http://midtnorsk.landbruk.no) that the meat producers are optimistic and increasingly *market oriented* despite a pressing economic situation (Eiliv Moe of Gilde Bøndernes Salgslag / Norsk Kjøtt).

Thus, although the cooperative relationships throughout the supply chain are easier to spot in other areas than agricultural food products, recent developments suggests that changes might take place. **In the next section**, we will present a theoretical model for understanding developing relationships, that in turn will be used to discuss the potential consequences of the changing power relations in the distribution channel for agricultural food products in Norway.

THEORETICAL BACKGROUND

Developmental processes and events

An underlying perspective in this paper is that power relationships should not be understood as static phenomena and that the power balance is not likely to change from one transaction to the next. Rather, it should be understood as a dynamic phenomenon that can be studied as developmental processes. In this paper, *process* is defined as *the unfolding sequence of events and (inter-) actions in and between organizational parties to shape and modify their (contractual) relationship over time*. In turn, an *event* is defined as *any incident where parties engage in, or take, actions of relevance to the relationship*.

Interorganizational research has the last two decades been dominated by static and structural perspectives, such as transaction cost economics (Williamson 1975, 1985) and the political-economy framework (Stern and Reve 1980, Arndt 1983). These perspectives have been concerned with the consequences of structural conditions for interfirm relationships, but lack processual dimensions. However, their common understanding of contracts as an important structural condition has been important (cf. Reve 1990, Williamson 1991).

Recent contributions from research in interorganizational relationships has called for more processual perspectives, where developmental processes should be studied through sequences of events (Ring and Van de Ven 1994, Zaheer and Venkatraman 1995, Doz 1996, Ariño and de la Torre 1998). Furthermore, it has also been called for cross-discipline perspectives accounting for micro-phenomena (Heide and Miner 1992, Sydow and Windeler 1998, Dyer and Singh 1998). In particular, negotiation theory are argued to be relevant (Dwyer, Schurr and Oh 1987, Ring and Van de Ven 1994, Dabholkar *et al*. 1994, Greenhalgh 1995, Sheppard 1995, Kumar and Nti 1998, Larsson *et al*. 1998).

Thus, it seems particularly relevant to build on two research traditions fundamental to interfirm relationships: contract theory and negotiation theory. While contract theory represents a structural perspective, negotiation theory relates to the behavior of agents in joint decisive or negotiation events. In addition, the perspective taken in this paper assumes *interdependence* (a duality) *between structure and action* in events over time (Giddens 1984, Sydow and Windeler 1998), where structural conditions enable and restrain agents' actions, and at the same time they are reinforced or changed by the same actions.

Power, contracts, and negotiations

Negotiations can be viewed as the "paramount mechanism for decision making. Bargaining is the sine qua non of interfirm decision making" (Sheppard and Tuchinsky 1996 p.338). Arndt (1979) suggested that negotiations occur at different levels between firms, referred to as structural, contractual, and transactional negotiations. Thus, negotiations take place to define the relationships between firms, as well as inside these relationships. Furthermore, interfirm coordination takes place, because some common interests are present. However, as each party has a set of private goals, conflict of interests in interfirm relationships are likely to occur. Thus, because interfirm coordination aims at realizing potentials each party could not achieve alone, the parties have to balance their mixed motives of pursuing own and/or both parties interests. As power "is the ability to cause someone to do something he/she would not have done otherwise" (Gaski 1984), the relative power between firms becomes important in negotiating events. Gaski (1984) proposed that performance in distribution channel relationships are directly affected by power, conflict, and countervailing power.

Below, we will present a theoretical framework for understanding developmental processes of interfirm relationships. The framework will be developed in two steps. First, a basic model

will be outlined, building on contract and negotiation theory. Then we will extent the basic model to account for evolving power relations. Thus, the conceptual framework will be an integrated framework for understanding and explaining development of interfirm relationships.

A THEORETICAL MODEL OF INTERFIRM RELATIONSHIPS

Long term contracts are incomplete due to a planning gap. The planning gap results from the inability to plan ahead for every circumstance and event that might come up in the future. To handle such uncertainty the parties rely on their mutual (long-term) goals, the developing relationship, and trust to achieve joint solutions and decisions as events occur over time. These decisions are enabled and restrained by the contractual relationship and the governance mechanisms available. However, governance mechanisms alone are not sufficient «tools» for reaching joint decisions. As an incident or a decision point related to the relationship occurs, the parties must reach a decision to handle the planning gap. In traditional market-based contracts, the formal contract specifies the decision or solution, and inside the firm the issue might be resolved through fiat. In long-term cooperative relations the parties must deal with issues as the relationship develops through joint interaction.

Although long-term relationships are based on a set of common goals, the two organizations have also private goals, whether initial or emergent. This creates the foundation for a mixed motive setting where opportunistic behavior *may* be observed as well as trustworthy behavior. Thus, the existence of both common and private goals creates a tension between two options: to pursue own or mutual interests. These divergences of interest must be solved within the relation without doing considerable harm, in order to develop the relationship further. Typically, the parties will not only satisfy either own or others concern, but try to integrate these concerns. The desired solution of each party can be seen as one alternative among many possible solutions. In order to achieve the desired solution, each party will approach the situation with a negotiation strategy, reflected through tactical behavior. The ability of the two parties to make the cooperation beneficial and viable for both parties depends on their ability to balance these concerns through appropriate tactics. Thus, we view such a decisive situation as a negotiation incident.

As the relationship evolves it becomes possible to track a chain of decision episodes. Hence, *long term contractual relations are viewed as continually negotiated agreements* (see Figure

1. below). With a continuous negotiated agreement we mean that a series of negotiations within a contractual framework will take place. The primary aim of these "negotiations" is to "zip up" the planning gap. These negotiations can be thought of as a chain of agreements through time. Within the original agreement, the initial contract, new agreements or specifications must repeatedly be established to handle the planning gap as new situations are unveiled. This is handled administratively through formal and/or informal negotiations that creates *additional guidance for the (continuing) relationship*.

The following model is thus proposed:

INSERT FIGURE 1. ABOUT HERE

Explaining the model

Contracts and governance mechanisms

A *contract* is defined as "no more and no less than the relations among parties to the process of projecting exchange into the future" (Macneil 1980 p.4). The concept of contract is closely tied to the idea of governance in the IOR literature. The term *governance* was by Williamson and Ouchi (1981) defined broadly as a mode of organizing transactions. More precisely Palay (1984 p.265) defines it as "a shorthand expression for the institutional framework in which contracts are initiated, negotiated, monitored, adapted, and terminated". Thus, the term governance is multidimensional (Heide 1994).

Typically, three basic forms of *governance structures* are discussed: the *market*, the *firm*, or *hybrid* organizational arrangements (Williamson 1991). Firms and markets are seen as opposites along a continuum, representing different modes of governance. In the market mode, transactions are regulated through classical and neo-classical contracts, inside the firm (or in the hierarchical mode) transactions are regulated through internal contracts, and in the hybrid mode relational contracts are important.

Each of these contractual alternatives relies on a distinct and different mechanism, referred to as a *governance mechanism*. The market mainly relies on *price* as the key parameter. Internal contracts, used inside the firm, rely on *authority*. Finally, in relational contracts, *trust* and *norms* are the main mechanisms (for more detailed discussions on these mechanisms, please

refer to Macneil 1980, Stinchcombe 1985, and Bradach and Eccles 1989). While governance structure refers to the institutional framework transactions occur within, *governance mechanisms refer to the key characteristics, elements, parameters, agency, instrument, means, methods and/or procedures through which contracts are accomplished*.

The three mechanisms price, authority, and trust can be identified through a set of indicators, as listed in Table 2.

INSERT TABLE 2 ABOUT HERE

Bradach and Eccles (1989) argues that price, authority, and trust are independent governance mechanisms that can be combined in a variety of ways, depending on the nature of the transaction, the exchange relationship, and contextual factors. In line with Bradach and Eccles (1989), it is assumed in this study that in IORs we will find *elements from all* these governance mechanisms. The main reason is that each of these mechanisms takes care of certain aspects of the relation. Therefore it is important to combine these elements in such a way that they are designed to match the actual contractual relation and the intentions behind it. Furthermore, they should not be viewed as static, but dynamic. Although contractual relations might be stable for some time (typically for shorter periods of time), at least certain aspects are likely to change over time, incrementally, critically, or through shocks.

Balancing mixed motives and negotiation strategies

Negotiation was by Lax and Sebenius (1986 p.11) defined as "*a process of potentially opportunistic interaction by which two or more parties, with some apparent conflict, seek to do better through jointly decided action than they could otherwise*".

This definition is appropriate for an interorganizational setting. Relationships involve conflicts as each party has a set of private goals in addition to mutual goals, and the parties can potentially act opportunistically because issues are often left for future resolution. Lax and Sebenius use the expression *apparent conflict*, indicating that there are *degrees* of conflict. The fact that parties might have private goals in addition to a set of shared goals, or different opinions with regard to how to reach mutual goals, represents a setting of *mixed motives*. Mixed motives involve elements that create tension between cooperation and

competition (Lax & Sebenius, 1986; Pruitt & Carnevale, 1993). Thus, making collaborative relationships work resides to some extent with the parties ability to balance these interests.

As the parties take action in decisive events (negotiations), they are assumed to make use of negotiation strategies to reach a desired outcome. The dual concern model as presented by Thomas (1976) and Pruitt and Rubin (1986) represent a key contribution as the model treats *concern for own outcomes and concern for others outcomes as independent dimensions* rather than opposite ends of the same dimension (Thomas 1976, see Figure 2). Concern for outcomes are given a range between high and low. Based on four (or five) possible combinations of high/low self/other-concern, the dual concern model predicts a negotiators *preferred* strategy among five general negotiation strategies. However, if this strategy for some reason seems infeasible to the negotiator, (s)he will most likely shift to the next best approach to achieve the goal (this is referred to as a "perceived feasibility" perspective) (Pruitt & Carnevale 1993).

INSERT FIGURE 2 ABOUT HERE

The five strategies identified are 1) Contending, 2) Problem solving, 3) Yielding, 4) Compromise, and 5) Inaction. If an axis is drawn diagonally from inaction through problem solving, the line represents the *integrative* dimension. An axis drawn from yielding, or accommodation as it is also called, through contending, the line represents the *distributive* dimension.

Contending is the preferred strategy when concerns for own outcomes are high, combined with low concern for the negotiating partner's outcomes. Contending is a competitive strategy, reflecting a "zero-sum game". Contending is often used when interests are conflicting and an agreement is to be reached under the influence of "competing" concerns. *Problem solving* is the preferred strategy when concerns for own outcomes are high, combined with high concern for the negotiating partner's outcomes. Problem solving aims at creating a solution where both parties' interests are worked into the final agreement. Problem solving reflects a cooperative orientation, and is often referred to as integrative bargaining and creating win-win agreements. *Yielding* is the preferred strategy when concerns for own outcomes are low, combined with high concern for the negotiating partner's outcomes.

Yielding, or concession making, involves a reduction on demands that makes a possible agreement less beneficial to oneself in favor of the other party. *Compromise* is the preferred strategy when concerns for own outcomes are moderate, combined with a moderate concern for the negotiating partner's outcomes. *Inaction* is the preferred strategy when concerns for own outcomes are low, combined with low concern for the negotiating partner's outcomes. Inaction is also referred to as *withdrawal*. This strategy is fundamentally different from the other four, as it indicates "no action". Inaction is often used temporarily as it does not move the negotiation toward agreement (Priutt and Carnevale 1993).

Each of these negotiation strategies is put to use through communicative behaviors, referred to as *tactics*. Each strategy might be operated through several tactics, as shown in Table 3.

INSERT TABLE 3. ABOUT HERE

Putnam (1990), adopting a process perspective, examines the relationship between integrative and distributive processes. An important point she makes is that "integrative and distributive processes subsume, but are not identical to, cooperation and competition. Maximizing joint gains can be achieved through mixing cooperative and competitive motives while maximizing individual gains can stem from working cooperatively as well as from efforts to win" (Putnam 1990 p.4). Putnam proposes that an interdependence view should be explored. The interdependence model represents a mixed-motive setting, where "integrative and distributive processes are intertwined in a symbiotic bonding that pervades negotiations. Each behavior in the bargaining contributes to both the integrative and distributive nature of the process. This bonding creates an inescapable tension between the competitive moves for individual gain and the cooperative behaviors necessary for coordinating mutual agreements (Gulliver, 1979; Lax & Sebenius, 1986). Rubin (1983) calls this tension a "quintessential illustration of interdependence" that pulls negotiation in extreme directions" (Putnam 1990 p.5). Following from this, a negotiator enter the process with multiple orientations, and these emerges and changes as a result of the process of mutual adaptations between the negotiators *over time*, and in relation to changing concerns, issue development and evolution, perceptions and expectations. Negotiation strategies are treated as information management "through tacit communication and guarded disclosure" (Putnam 1990 p.14).

Thus, as relationships develop over time, we propose that changing governance mechanisms and use of negotiation strategies can be observed, and that they affect the outcomes observed in interorganizational relationships.

Power: An extension of the conceptual framework

As suggested by Emerson (1962), we treat power in terms of power-dependence relations where "the dependence of actor A upon actor B is (1) directly proportional to A's *motivational investments* in goals mediated by B, and (2) inversely proportional to the *availability* of those goals to A outside of the A-B relation" Emerson 1962 p.32). Thus, when the dependence of one party provides the *power-base* for the other "the power of actor A over actor B is the amount of resistance on the part of B which can be *potentially* overcome by A" (Emerson 1962 p32, emphasis added). Thus, in imbalanced relationships, it will be in the interest of the weaker party to conduct balancing operations. Emerson (1962) suggests that the following balancing operations (in the relation Pab=Dba) can take place: 1) B can reduce the motivational investment in goals mediated by A (withdrawal), 2) B can cultivate alternative sources for gratification of those goals (extension of power network), 3) A can increase motivational investments in goals mediated by B (emergence of status), and 4) A can be denied alternative sources for achieving those goals (coalition formation).

A key point in Emerson's contribution is that power-dependence relations should be treated as parts of power networks, and not isolated relations. This is in line with Giddens (1984 p.14) who suggest that "an agent ceases to be such if he or she loses the capability to … exercise some sort of power". Thus, being an agent involves some power, or transformative capacity, including the ability to influence the power of others.

Adopting such a view emphasizes the *relative power* of organizations, makes the existence of *BATNA* (best alternative to a negotiated agreement) an important concern as it reduces a party's power-base over another by limiting their options, and finally underscores the importance of developmental possibilities over time. Thus, we extend the proposed model (Figure 1.) to include power (Figure 3. below).

PLEASE INSERT FIGURE 3. ABOUT HERE

By including power explicitly in the conceptual framework, it is indicated that the parties relative power and alternatives to a negotiated agreement have direct impact on the structural and contractual conditions of interorganizational relationships. As they in part define the structural and contractual frameworks for exchange, the actual sequence of (exchange) events and the outcomes of these in turn change or reinforce the relative power of the parties. On the basis of the perceived outcomes from the relationship (and future expectations), the changed relative power and alternatives to an agreement, as well as based on the former contractual framework a re-negotiation, or re-positioning of the relationships can take place (note that recurrent contracting or exit is equally valid alternatives).

We will **now turn to discuss implications of the proposed conceptual framework** for the case of agricultural food distribution in Norway.

DISCUSSION AND IMPLICATIONS

The discussion will be based on the conceptual framework we have developed above, and some basic assumptions. First, we suggest that it is important to adopt a processual view of the change in power relations. The described change has taken a decade, and might still be considered fast. Secondly, we suggest that strictly structural or behavioral perspectives are insufficient to understand evolving relationships, and that a combination of perspectives is needed. Finally, we suggest that it is important to have an understanding of interaction in events, and that transactional interaction takes place within certain structural conditions, which over time are reinforced or changed. Thus, focusing on single *discrete* events are considered misleading, as the relational outcomes over time are considered to outweigh their impact.

We have previously described the structural change that has taken place in the distribution channel for agricultural food products in Norway. While much of the current debate focus on this fact, implicitly assuming more or less that it is either good (from a price conscious consumer point of view) or bad (seen from the farmer and/or local farmer community view), we have attempted to present a more varied view.

The most important change that has taken place is the increased power of the retail chains. From controlling 46% of the market in 1990, the four retail groups currently control practically the whole consumer market. While ten years ago the only dominating retail group

was the consumer cooperative COOP, the industry cooperatives were the relative powerful actors. However, the description of the industry showed that the farmer owned cooperatives still are dominant actors in the supply chain. Having for instance 50% of the consumer market for meat products reflect a strong market position. It is important to keep this fact in mind. Thus, over the last decade the retailers have succeeded in their balancing operations.

Secondly, the points of interception in the supply chain have changed. Formerly, the supply chain could be divided in three main stages: the producers (including the purchasing cooperatives and the processing industry), wholesalers, and retailers. Today, the retailers have reasonably good control (and power) over the wholesalers through vertical integration (ownership), long-term contracts, or simply as a consequence of their control over the sales points. During the same period, the industry cooperatives have maintained their strong positions at their stage of the supply chain. As change is currently taking place to remove wholesale as a separate profit center, this only reflects the position of the chains from a different angle. Thus, the balancing operations of the retailers are ongoing processes. As a result, the point of interception is currently between the processing industry and the retailer-controlled wholesalers. Interaction between the industry and the chains are thus more direct.

Finally, recent trends suggest that contracting practices of the retailers are changing. In particular, the chains seem to start to develop dedicated supply chains in different product areas. So far this trend does not suggest that only big corporate entities manage to successfully compete for contracts, but that small independent actors are able as well. With regard to the discussed food production, emerging contractual change is still primarily related to fruit and vegetables. However, the general trend does not seem to reverse and a change of practice should be expected in new product areas.

So far we have de-emphasized the dominant market position of Tine (dairies). Having such a dominant position, the retailers have limited options, and the relative power of Tine has not changed significantly as a consequence of the changed positions of the chains. Our view is that Tine's relative power versus other actors (than the retailers) is more important as forces for change, but these falls outside the scope of this paper. However, the principal aspects of the discussion apply equally.

We conclude that although the relative power of the retail chains versus the industry has changed significantly, alternatives exist on both sides of the supply chain. The competition between the retail chains cannot be doubted, so cannot the relative strong positions of the industry cooperatives. Thus, the power-dependency relations are relative, and it should be possible for both sides to establish respectable BATNA's. Thus, healthy competition is still a promising possibility in the supply chain. However, the relative few corporate entities at each end of the supply chain, as well as their relative high market shares, suggest that it is more reasonable to frame the power relations in terms of *interdependence*. As there are limited sourcing options for the chains, as well as limited distribution options for the producers, the parties more or less *have to* engage in exchange processes over time.

While in the early nineties, when the relative power of the chains was increasing rapidly, they used their new positions to play the market to a greater extent than today. However, as the chains have increased their amount of private brands, the industry was challenged. This situation is currently emerging for meat products. Thus, there is contagion between product categories over time. During the first half of the nineties, the chains contracted for shorter terms (often 1 year), however often recurrently. They relied to a great extent on market mechanisms (price and economic incentives) in order to increase competition between suppliers as well as to pursue a discount market position. Thus, the "game" was more distributively oriented, and to some extent could be understood as a fixed-sum payoff game. The retail chains played this game well. They also managed to grow fast through franchise formats and new retailer owned stores, improving their relative position.

In the late nineties, contracting practice changed to more moderate to long-term agreements with suppliers primarily serving one retail organization. In some instances, dedicated supply chains with private labels emerged (e.g. beverages) in addition to the established industry brands. The new contracting practice increased the time horizons up to ten years, and thus represents an enormous potential for those actors that compete successfully. Contracting for such time periods clearly involves high levels of interdependence, and power has to be understood as relative, and it might also be more useful to compare the relative power *between different channel operations*. So far, state authorities are satisfied with the competitive situation in the business although the number of actors is limited. However, the new contract practice also increase competition for #2 and #3 suppliers.

An interesting aspect of this change is that new contractual practices necessarily involve a change in the combination of governance mechanisms, as hierarchical authority mechanisms and socially based mechanisms become increasingly more important. For instance, the increased importance of trust and relational norms such as mutuality, reciprocity, solidarity, and preservation of the relation (Macneil 1980) makes information-sharing possible, not to say necessary, and enhance the potential for exploiting problem solving strategies. Thus, the contractual practice cannot change in isolation, but are interdependent on changing behavioral modes. In order to make such long-term agreements competitive (as compared to short-term market contracts) and possible to manage integrative modes of interaction are likely to increase relative to distributive modes of behavior. As a consequence, costs can be reduced and more value can be created for both contract parties.

Thus, the partners (to a contract) concerns for each other (and their combination of concerns for own and others interests) change (increase). This is a powerful change as the entire framing of their *joint business* moves away from a zero-sum game to a variable-sum game where the potential to *increase joint gains* is a key dimension. Following from this, the actors' assessments and evaluation of outcomes are likely to change from strictly monetary measures to include other values such as their role fulfillment and satisfaction (Tripp, Sondak and Bies 1995), where also the welfare of the other partner becomes important (Corfman and Lehmann 1993). Furthermore, evaluation of outcomes is likely to take place on a relationship level and not on a transactional level (Ness 1999).

As the roles in the supply chain change, it becomes important and possible to develop efficient role relationships. The retailer's interest in developing efficient distribution channels primarily started with an interest for logistics both in retail organizations and among larger industrial suppliers (such as Lilleborg, Ness 1999). Retailers have taken many of the initiatives to increase efficiency in the supply chain as a result of their improved positions in the market. Before the chains had grown to a certain size, such initiatives were difficult to implement due to scale problems. While the industry side and farmer cooperatives were powerful and dominant at their stage of the distribution channel, efficient logistics and flow of goods were not a prominent area of interest. Furthermore, the cooperatives and the processing industry to some extent had several roles and interests to fulfill, such as maintaining diversity of cultivated land, survival of (small) local communities, maintaining their political position versus fisheries, and so forth. Often, these concerns conflicted with concerns for efficient

distribution channels. However, as the chains became dominant they showed an ability to perform a strong channel role. This ability has been important for the change that has taken place. The retailers have not been under influence of a wide range of political and cultural concerns related to the context of their operations, and have been pursuing this particular role. This is an important issue, as the following quote reflects: "Because strong channel partners are better able to execute their assigned channel roles effectively, each channel member has a continuing vested interest in the other's welfare, as well as a stake in maintaining the relationship" (Frazier and Summers 1986 p.170). As the retailers have executed their channel role effectively, the industry should also benefit, and furthermore, it becomes important for the retailers *to serve the industry* as they exchange in a context of interdependence. Frazier and Summers' (1986) results provide support for a view that power can have a *positive* role in promoting effective coordination of channel relationships.

Empirical evidence from other buyer-seller relationships supports such a view. Dwyer and Walker (1981) found that the more powerful partner often used their power to initiate problem-solving strategies in order to increase joint profits. The results of their study thus suggest that dyadic relationships move away from a distributive game towards integration of interests. Rinehart and Page (1992) provide support for the view that buyers and sellers perceive their actions and behaviors to affect the actions and behavior of the other party, and that this *mutual adaptation* can lead to *mutually beneficial outcomes* through use of integrative strategies. Ganesan (1993) examined the impact of situational factors (power, time orientation, and importance of the issues to be resolved) on the use of various negotiation strategies (problem solving, compromise, and aggressive; building on the dual concern model), as well as the impact of different strategies on channel member outcomes and satisfaction. The findings indicate that when retailers have a long-term orientation, conflicts on major issues are resolved through the use of problem solving and passive aggressive strategies. Short-term orientation will increase the use of aggressive strategies in major conflicts. Furthermore, larger outcomes and greater satisfaction were achieved through the use of problem solving strategies to resolve major conflicts than through use of compromise or aggressive strategies. Results also indicated that when the retailer was more powerful than the vendor, the retailer was more likely to use a problem solving strategy.

Similar results were also found by Perdue and Summers (1991). However, they also found that engaging in problem solving did *not* preclude use of aggressive strategies. Also, contrary

to expectations, they found that *supplier competition had negative effects on tough tactics and positive effect on problem solving*. Discussing their findings, they point to that "bargaining behavior may be more complex, at least in an industrial purchasing context, than a bipolar integrative/distributive perspective would suggest. Both integrative (problem solving) and distributive (aggressive bargaining) strategies can be used to a greater or lesser extent within any given set of negotiations" (Perdue and Summers 1991 p.186).

Boyle *et al*. (1992) investigated the relationship between *structural* variables and use of influence strategies in marketing channels. They were interested in the relationship between use of influence strategies and the strength of buyer-seller relationships (relationalism), and how use of influence strategies differed *across* alternative governance structures. Influence strategies included promise, threats, legalistic pleas, requests, information exchange, and recommendations. Governance structures included market, administered, franchise, and corporate systems. Their data showed that *relationalism were negatively associated with use of threats, legalistic pleas, and requests as influence strategies*. Furthermore, a *global measure of relationalism was positively associated with the frequency of recommendations, promises and information exchange*. They also found that supplier communication differed *across* the four governance structures.

Based on the above reasoning, we believe that the improved positions of the retail chains have had important consequences, and that these are not entirely negative, neither for the industry. Based on the conceptual framework, we suggest that several parties are likely to benefit from the changes that have taken place and from the increased potential for cooperation. Not only will the retailers benefit from it, but also most likely the industry, and finally the consumers.

CONCLUSIONS

This paper has been concerned with the increasing vertical coordination and chain power in the distribution of food. Basically, we have focused on the change that took place during the nineties, and the trends that are emerging currently in the business. Based on a theoretical framework, we have suggested that in order to understand the consequences of the past and emerging change a process perspective must be applied. The framework we have suggested focus on structural change in terms of changing contractual practice, as well as the interdependence of structural change on change in behavioral modes, and in particular use of negotiation strategies in structural, contractual, and transactional negotiations. These

contractual and behavioral changes are assumed to influence relational outcomes. We conclude that the observed changes are neither strictly positive nor negative. However, we have focused on the potential benefits for the whole distribution channel. As the actors in the channel are interdependent on each other, the potential for increased cooperation is substantial. Furthermore, we have also shown that the ability to perform strong channel roles are important, and that the relative powerful actors seek to exploit their power for the benefit of the whole channel particularly in established relationships. We have avoided predictions related to the future structure of the distribution channels such as speculating on industry owned channels, and rather attempted to provide an alternative framework in order to contribute a different and integrated perspective to the current discourse.

The paper have discussed a 10-year process of change, and attempted to suggest some possible consequences for the next 10 years. However, only the emerging business practice in the industry itself will show. Currently, several important trends are emerging such as changing consumer behavior, internationalization of retailers and possibly the industry, changing chain formats, increasingly blurred boundaries between trades, and relations to the WTO and EU. However, these aspects have been outside the scope of this paper, as have the current domestic political debate related to the future of Norwegian agriculture.

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As indicated throughout the text:

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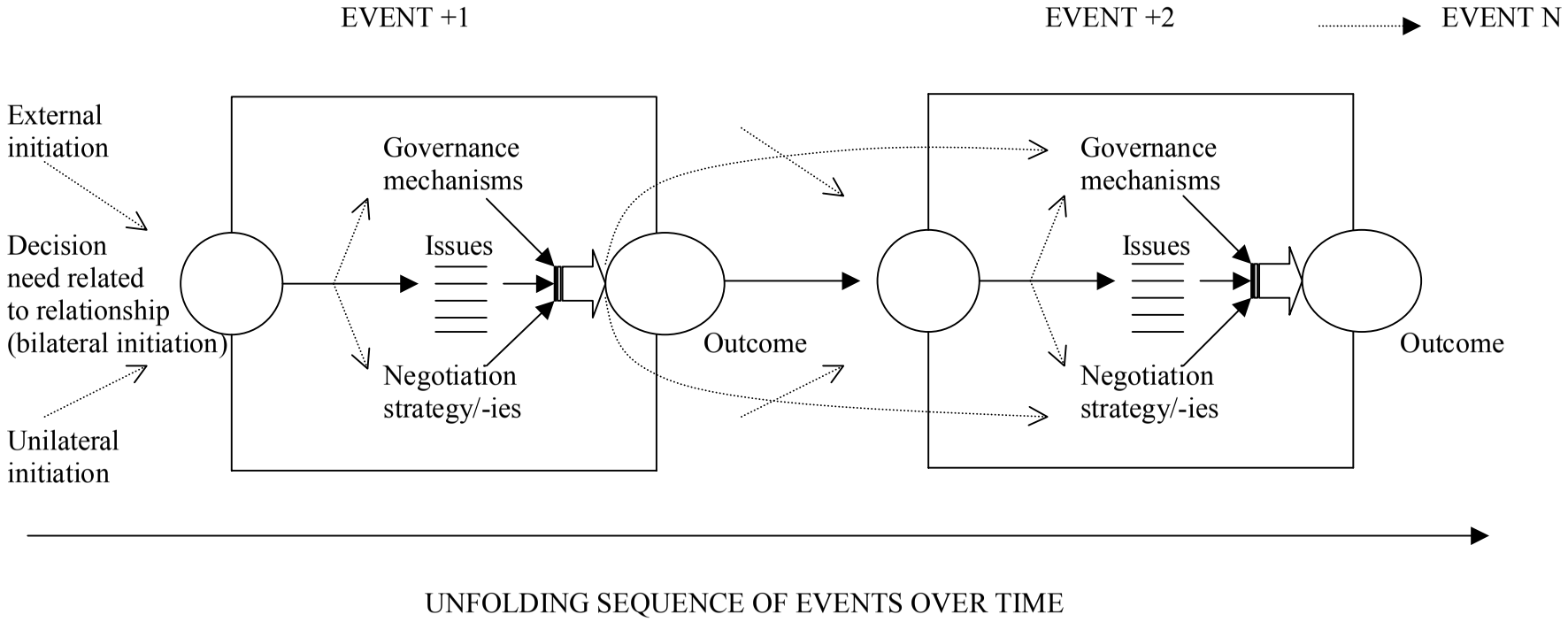


Figure 1.: Interorganizational development processes as continuous negotiated agreements

(Source: Ness 1999)

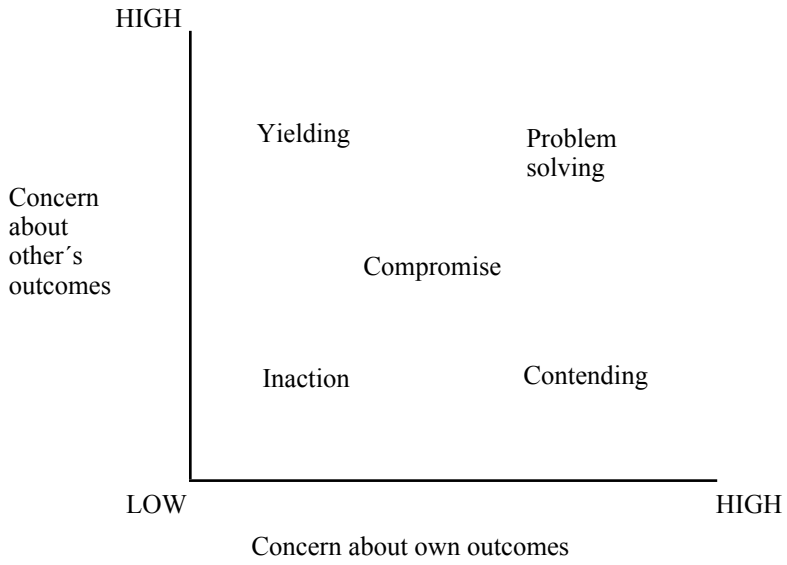


Figure 2.: The dual concern model

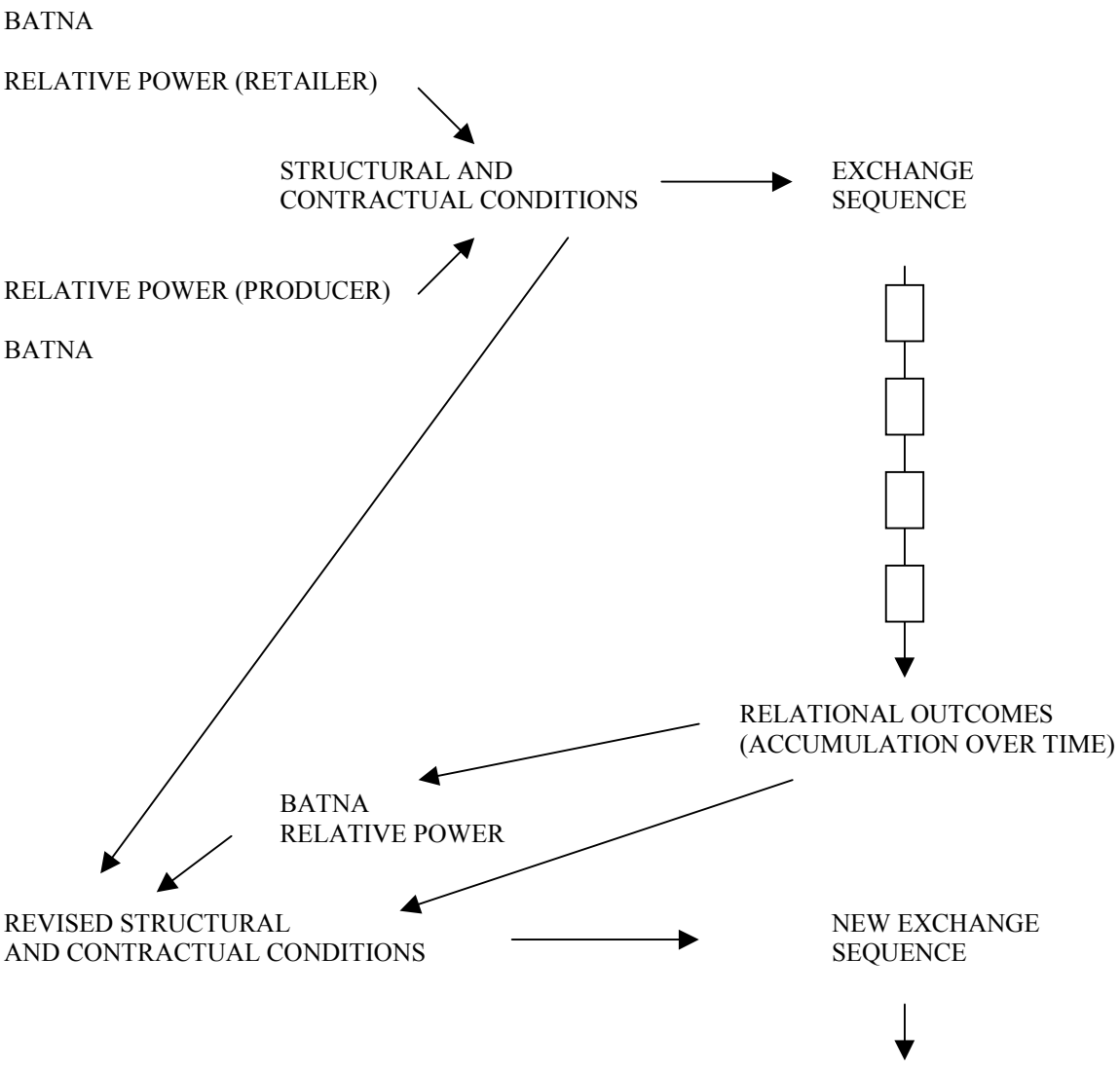


Figure 3.: Changing relative power in developing relationships

Year	Sales (bill NOK)	Chains market shares
1990	58.5	46%
1991	63.5	51%
1992	68	67%
1993	73	70%
1994	78.5	97%
1996	82	98%
1998	91.7	99%

Table 1.: Market size and chains market shares (kiosks and petrol stations excluded)

ECONOMIC INCENTIVES
Price
Bonuses, discounts, rebates
Sequential contributions
Advertisements
Delayed payments and interests
Delivery times and inventory
Support and updates
Royalties
Etc.

HIERARCHICAL AUTHORITY
Supervising
Decisive power (allocative authority)
Rules
Regulations
Sanctions
Formalization
Centralization
Monitoring / Control
Superior competencies
Procedures
Standards

NORMS AND TRUST
Acceptance of vulnerability
Harmonization
Personal relations
Role integrity
Preservation
Solidarity
Reciprocity
Flexibility
Mutuality
Adaptation
Expectations

Table 2.: Indicators of "Price", "Authority", and *"Trust"*

INACTION	YIELDING	CONTENDING	PROBLEM SOLVING	COMPROMISE
Withdrawal	Reduce demands	Threats	Increase available resources	Give-and-take
Avoidance	Reduce goals	Harassment	Create additional value	Share
No response	Adaptations	Positional commitment	Logroll	concessions
Talk around	- unilateral	Persuasive arguments	Non-specific compensation	Suggest
issues	- bilateral	Time pressures	Unbundling	middle-
Not show up			Cost cutting	ground
for negotiation			Specific compensation	solutions
			Bridging	
			Information exchange	
			Promises	

Table 3.: Tactics used to operate negotiation strategies