Managing Sustainable Agri-food Chain Relations: Factors Affecting Relationship Quality and Stability Dimensions

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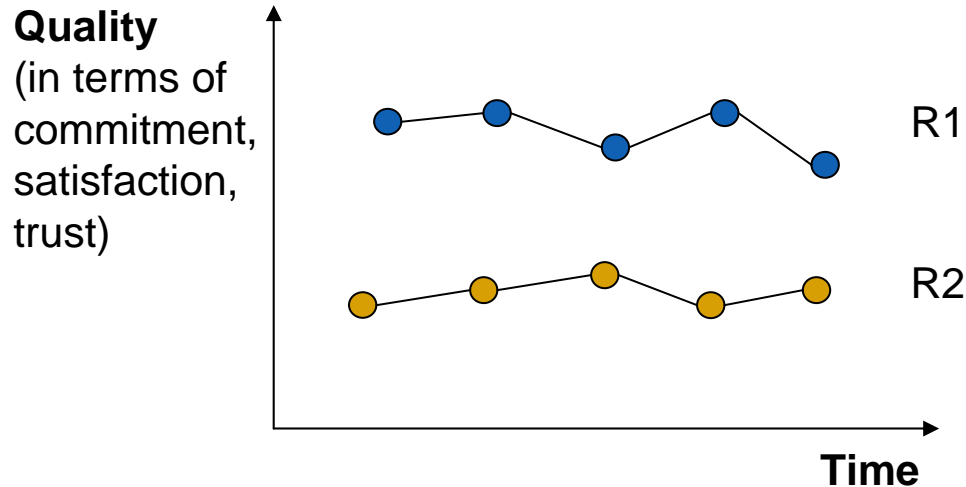# Understanding inter-enterprise relationships

Context

▸ Business systems have become more important all of the world.

▸ (Global) value chains are now considered a key vehicle for agricultural development, in particular for linking farmers to markets.

▸ In all types of business systems sustainable inter-enterprise relationships must be developed and maintained.

Aims & method

▸ Create a better understanding of what sustainable business relationships are and how they can be managed.

▸ Theoretical treatment and empirical analysis of recently collected survey data, using structural equation modelling (SEM) techniques.

A sequence of transactions or other commercial interactions

Quality
(in terms of commitment, satisfaction, trust)

R1
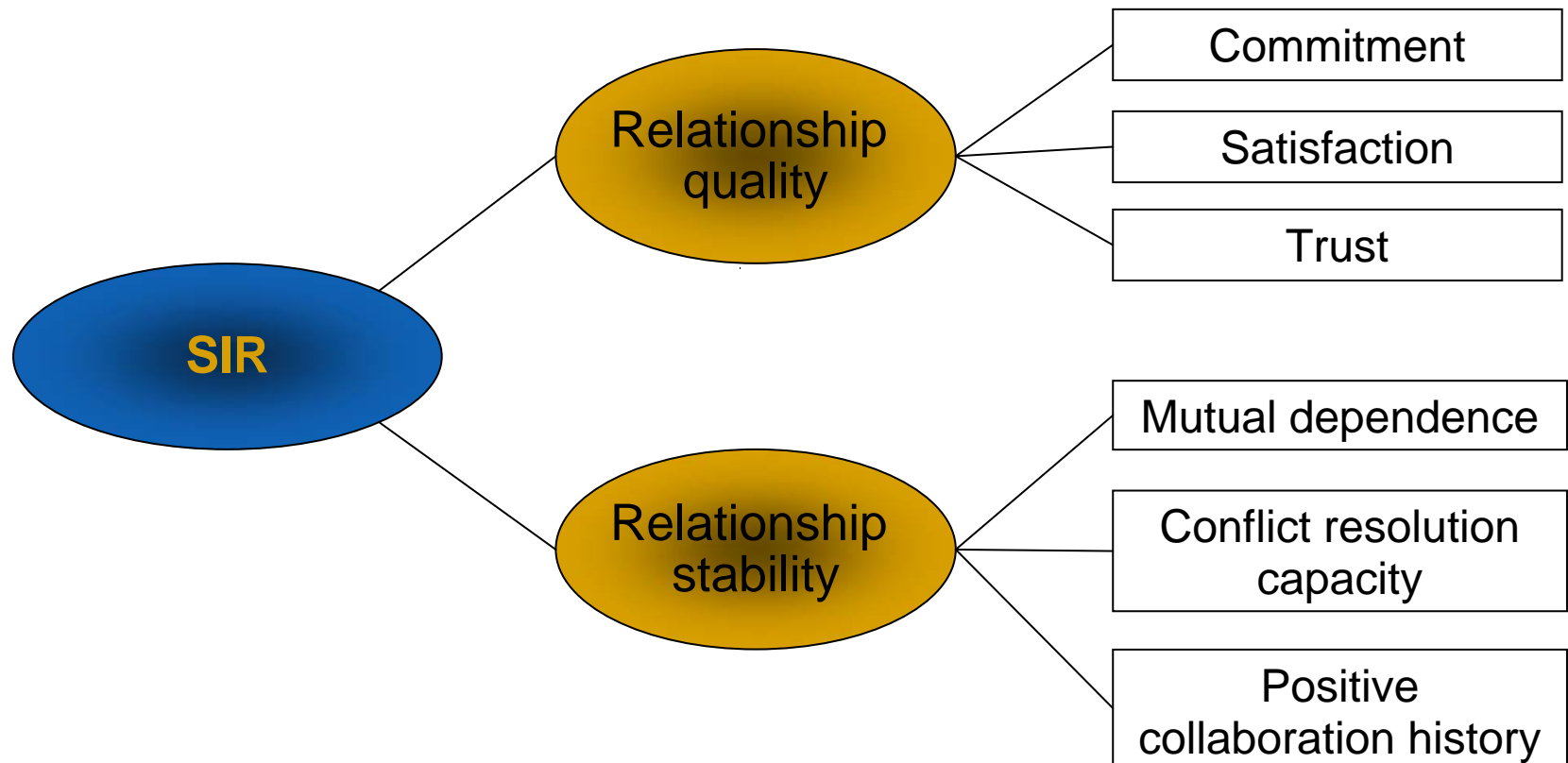
R2

Time

Quality

R1

R2

Time

Relationship quality: R1 > R2
Relationship stability: R1 $\cong$ R2
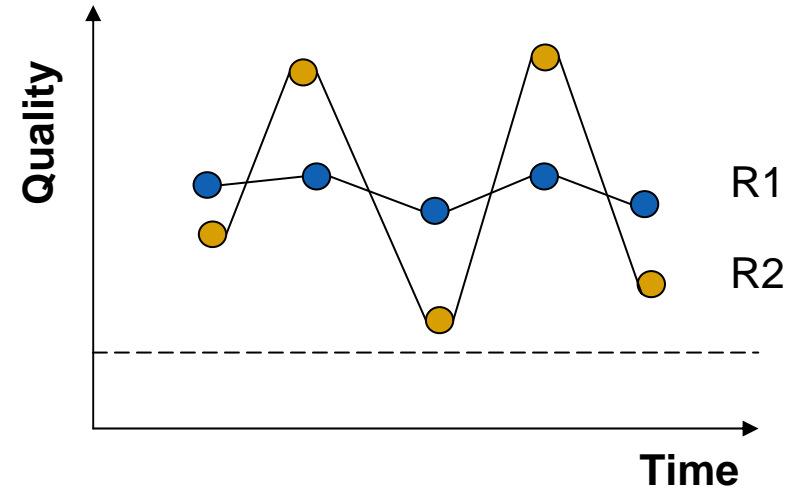
Relationship quality: R1 $\cong$ R2
Relationship stability: R1 > R2

Sustainable inter-enterprise relationship (SIR)

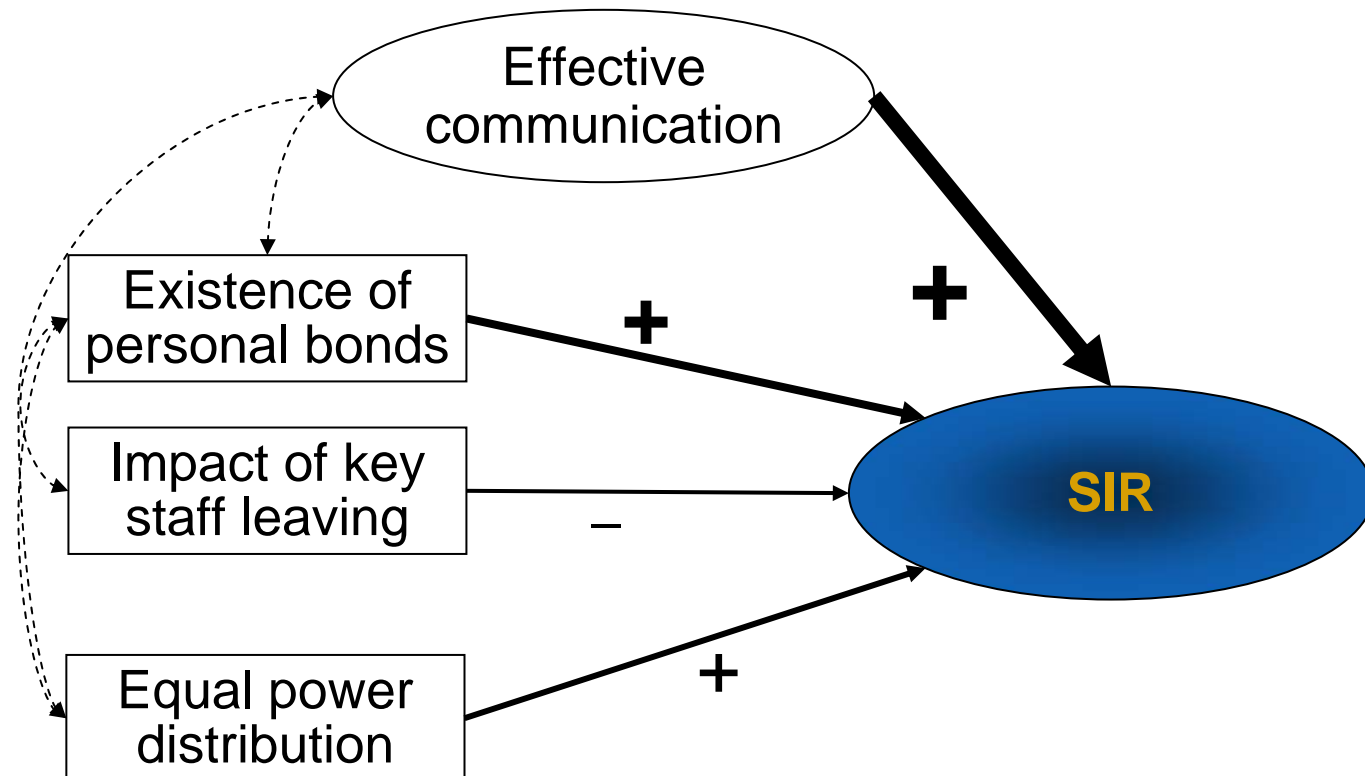# EU cross-country, multi-commodity survey of farmers, processors & retailers

Survey details

▸ Six countries, 2-3 different value chains per country.

▸ Period: Nov 2006 to Apr 2007.

▸ Wide promotional support from private and public-sector stakeholders.

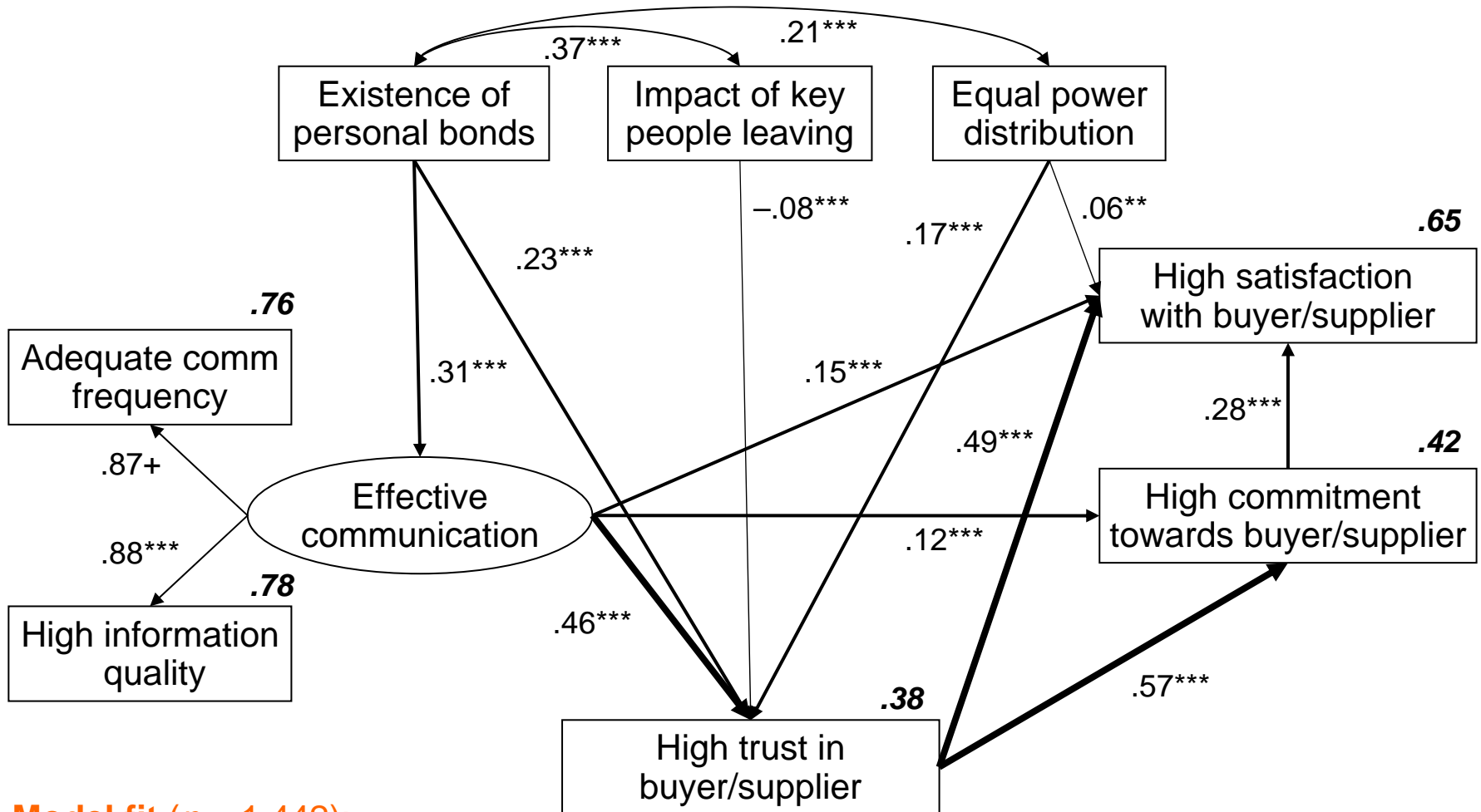▸ Mixture of mail, telephone, face-to-face and online interviews.

Sample quality

▸ 1,442 responses at the end of survey period.

▸ Country samples in most cases by and large representative in terms of geographic location and firm sizes.

▸ No major problems with non-response bias or non-randomness of sample as shown by statistical tests.

Effective communication is the most important determinant
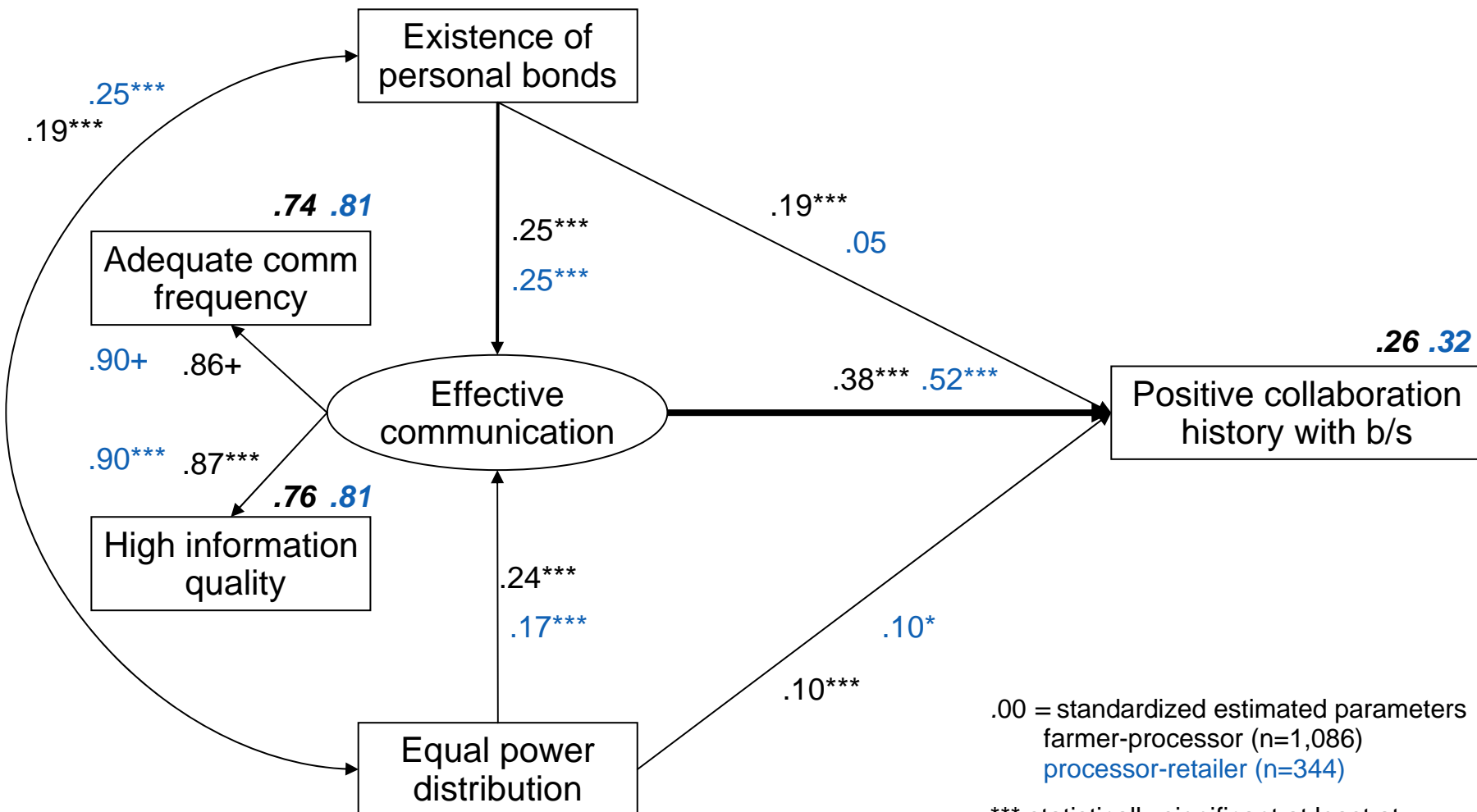
SEM results for relationship quality
Trust is a powerful mediator

Existence of personal bonds — .37*** — Impact of key people leaving — .21*** — Equal power distribution

.23***

−.08***   .17***   .06**

.65
High satisfaction with buyer/supplier

.76
Adequate comm frequency

.31***

.15***

.87+

Effective communication

.28***

.42
High commitment towards buyer/supplier

.88***

.49***

.78
High information quality

.12***

.46***

.38
High trust in buyer/supplier

.57***

Model fit (*n* = 1,442):
CMIN/DF = 8.054 (*p* = .000);
NFI = .976; RMSEA = .070

.00 = standardised estimated parameters; *.00* = squared multiple correlations (*R²*)
*** (**) statistically significant at least at the 99% (95%) confidence level;
+ constrained parameter, no significance available;

Effective communication most important

Existence of personal bonds

.25***
.19***

.74 *.81*

Adequate comm frequency

.90+ .86+

.90*** .87***

.76 *.81*

High information quality

.25***
.25***

.19***
.05

Effective communication

.38*** .52***

.26 *.32*

Positive collaboration history with b/s

.24***
.17***

.10*

Equal power distribution

.10***

.00 = standardized estimated parameters
   farmer-processor (n=1,086)
   processor-retailer (n=344)

*** statistically significant at least at
   the 99% confidence level.

.00 = R^2

Model fit (*n* = 1,442):
CMIN/DF = 1.015 (*p* = .398);
NFI = .998; RMSEA = .003

How to manage SIRs

Relationship quality:

▶ **Commitment**. Improving trust and communication.

▶ **Trust**. Improve communication, nurture personal bonds and mitigate the potentially harmful effects of unequal power distribution

▶ **Satisfaction**. Most complex. Trust, commitment and communication are vital.

Relationship stability:

▶ Improve communication and nurture personal bonds, in particular when dealing with farmers.