



FACTORS INFLUENCING TRUST-SUPPORTING MECHANISM IN EUROPEAN AGRI-FOOD CHAINS

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Christian Fischer, Maria A. Gonzalez, Maeve Henchion, Philip Leat

AGENDA

1) Introduction

2) The FOODCOMM project

3) Review of literature

4) Methodology and results

5) Conclusions



The FOODCOMM project

OVERVIEW



Title and sponsor

- **Key factors influencing economic relationships and communication in European food chains**
- Specific Targeted Research Project (STREP) within the Sixth EU Framework Programme for Research and Technological Development (FP6).
- Complete information:
www.foodcomm-eu.net

Consortium

- UNI BONN, Department of Agricultural and Food Market Research
- Scottish Agricultural College (SAC)
- Ashtown Food Research Centre (AFRC), Ireland
- Center for Agro-Food Research and Technology (CITA), Spain
- IAMO, Germany
- Ruralia Institute, Finland
- Institute for Agricultural and Food Economics (IAFE), Poland

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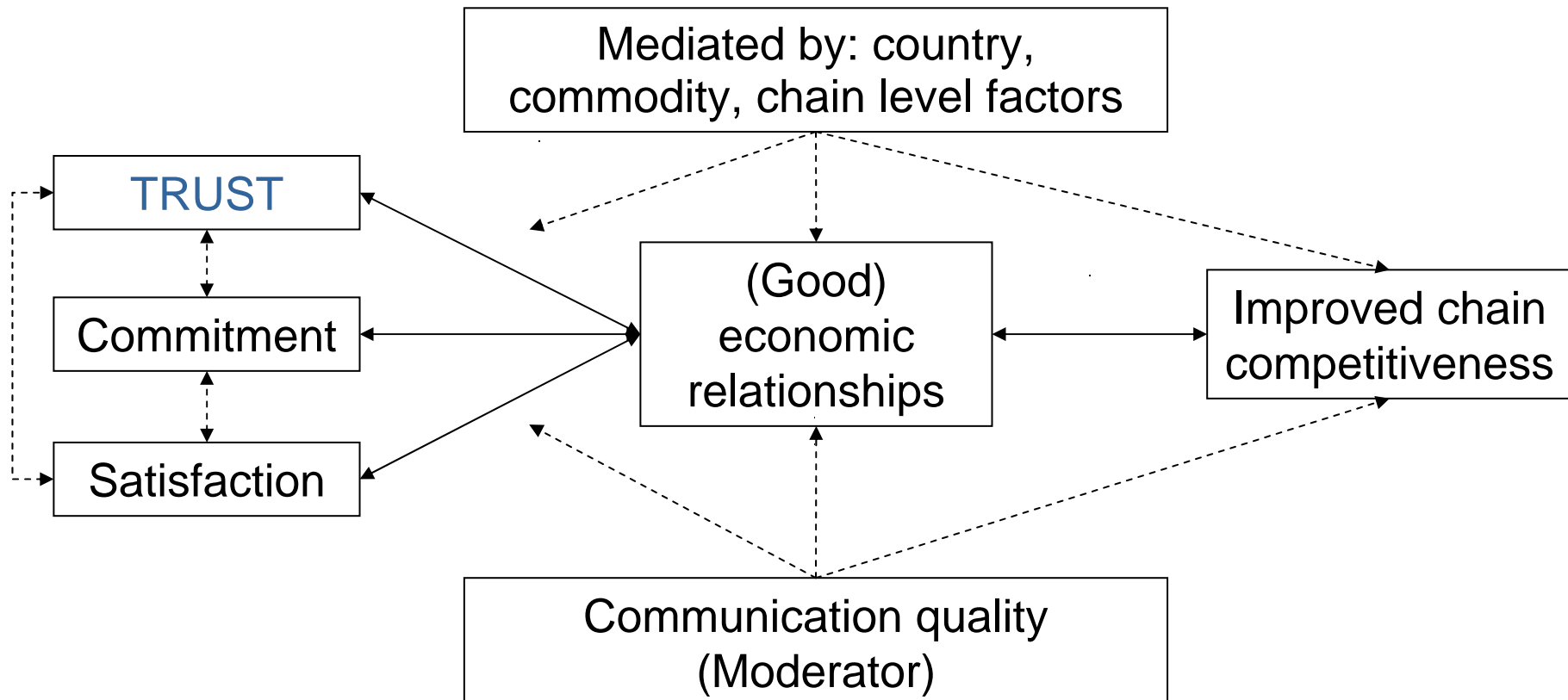
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CONSULTED THEORIES

- Socio Cultural Economics
- Relationship Marketing
- Transaction Costs Economics
- Interaction Approach
- Network Theory

SUMMARY: THE ROLE OF TRUST IN AGRI-FOOD CHAINS



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EMPIRICAL APPROACH

Desk research

- Review of existing literature and data.
- Analysed countries: Germany, Ireland, Spain and the UK.
- Analysed agri-food chains:
 - cattle to beef,
 - pig to pigmeat, cured ham and sausage,
 - barley to beer,
 - cereals to bread.

Expert interviews

- Qualitative face-to-face or telephone interviews of 28 experts from industry associations, companies or academia.
- Conducted during summer/autumn 2005. Duration: about an hour.
- A semi-structured interview guide was used to explore
 - the nature of chain relationships
 - the influences on their development
 - the nature and importance of chain communication
 - and features of chain performance.

GERMANY FINDINGS (1)

Pig to sausage chain

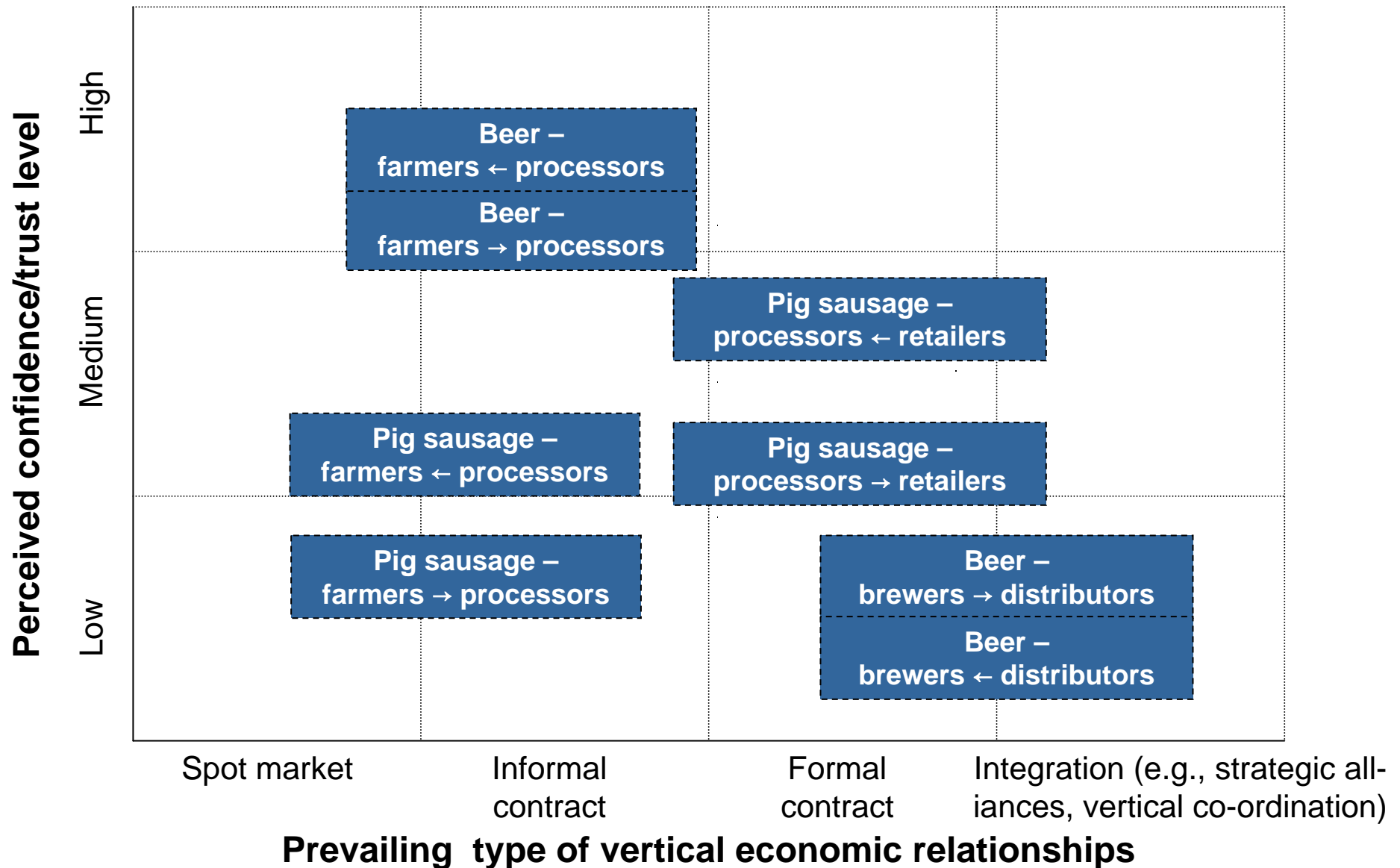
- Farmers are least integrated and display lowest levels of trust.
- Reasons: compensation based on carcass quality is not sufficiently transparent.
- Downstream, levels of integration and trust are higher, but not extremely high.
- Reasons: dominating retailers can enforce standards (for private labels) which in this case seems to be a source of distrust.

Malting barley to beer chain

- Small-scale farmers are least integrated but show highest levels of trust leading even to specific asset investments.
- Reasons: strong personal relationships due to shared local roots.
- Downstream tensions and strong mistrust prevails, despite higher levels of integration.
- Reasons: current disarray in German beer market characterised by strong consolidation.

Results

GERMANY FINDINGS (2): SUMMARY



Results

UK FINDINGS (1)

Malting barley to beer chain

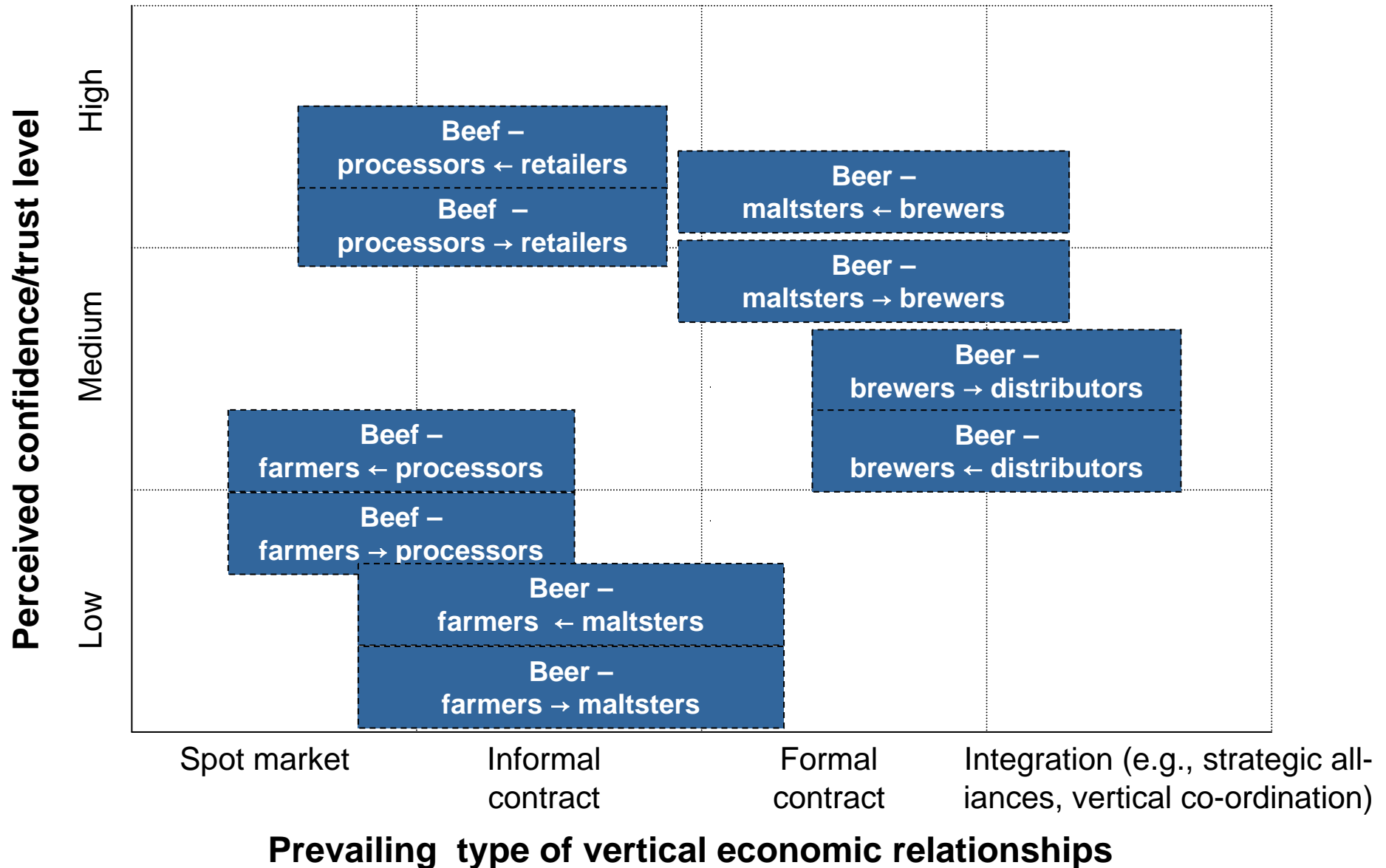
- Many farmers have low levels of trust.
- Reasons: low margins, competitive sector, lack of transparency.
- Maltsters: contracts used for supply security, cost predictability and quality assurance. Contracts, through merchants, with reliable growers.
- Reasons: significant costs of contract enforcement.
- Brewers and maltsters: good trust levels, but contracts used to buy malt.
- Reason: supply security and cost predictability.
- Brewers and retailers: significant degree of trust, but contracts and supply agreements widely used.
- Reason: to secure important brands at predictable prices.

Cattle to beef chain

- Farmers: low trust levels, particularly of multiple retailers (>75% of retail sales) and their processors – believe processors too driven by retailers. Spot market orientation.
- Reasons: competitive markets, excess slaughter capacity, high import penetration, lack of transparency.
- Processors: Construct and operate chains for multiple retailers.
- Reason: to secure major markets. Have to trust major customers.
- Multiple retailers: offer integration through partnership (seek mutual benefit). Very few formal contracts.
- Reasons: seek competitive prices, appropriate quality, supply continuity, chain efficiency, innovation at reasonable cost.

Results

UK FINDINGS (2): BEEF & BEER CHAIN



IRELAND FINDINGS (1)

Cattle to beef chain

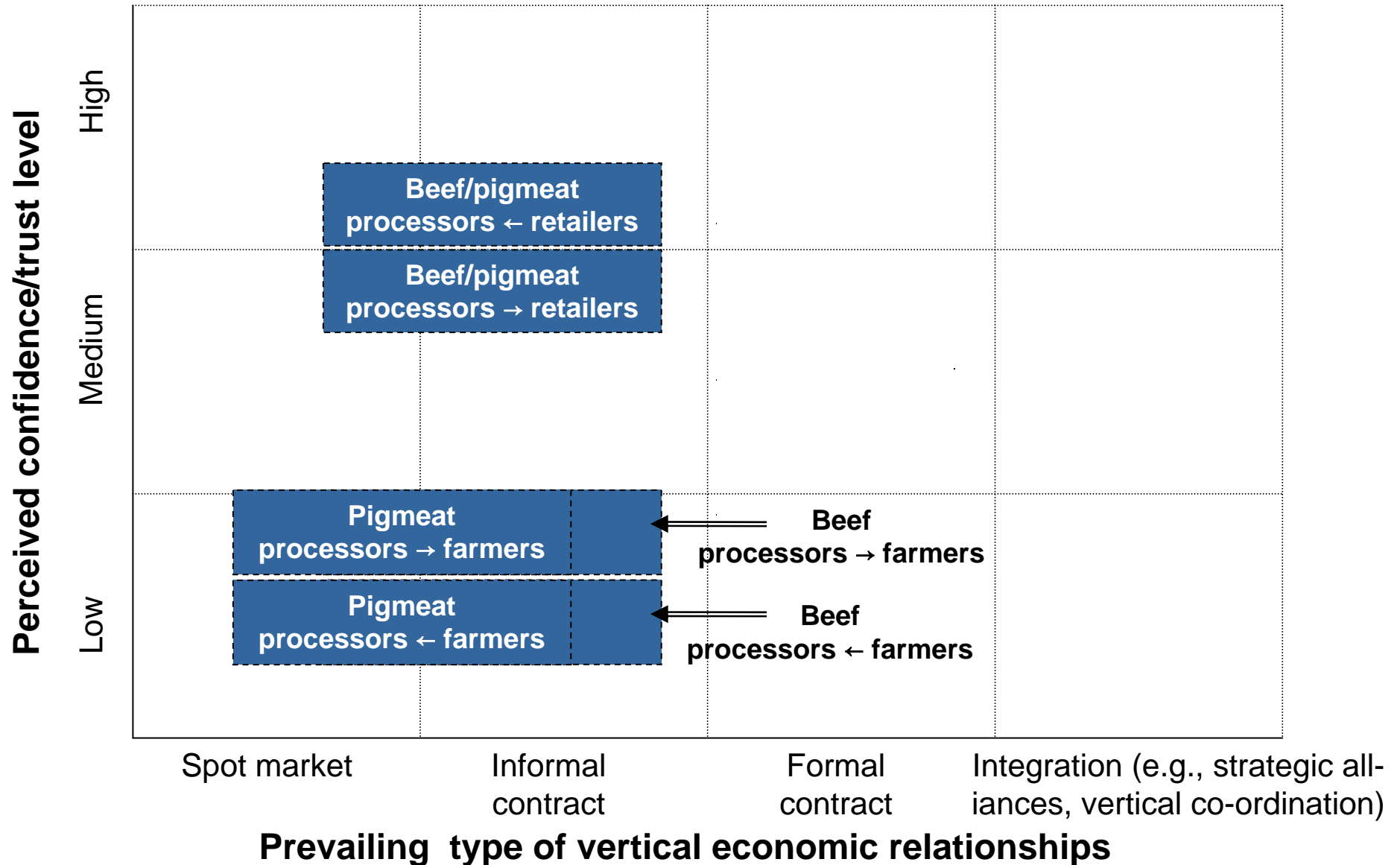
- Slow trend towards greater integration between farmer and processor.
- Reason: lack of incentive and lack of mutually satisfying exchanges in past.
- Processor-retailer 'partnerships' with high switching costs.
- Reason: adaptations and specific investments.
- Processor-independent butcher - personal relations important in supporting trust.
- Reason: parties of smaller scale.

Pig to pigmeat chain

- Producer-processor - lack of trust.
- Reason: lack of price transparency (large range of bonuses and penalties).
- Absence of contracts.
- Reason: low levels of trust and high transaction costs associated with enforcement.
- Processors and retailers/catering - high level of transaction-specific investments particularly for private label products.
- Reason: high levels of trust and commitment.

Results

IRELAND FINDINGS (2): SUMMARY



SPAIN FINDINGS (1)

Pigs to cured ham chain

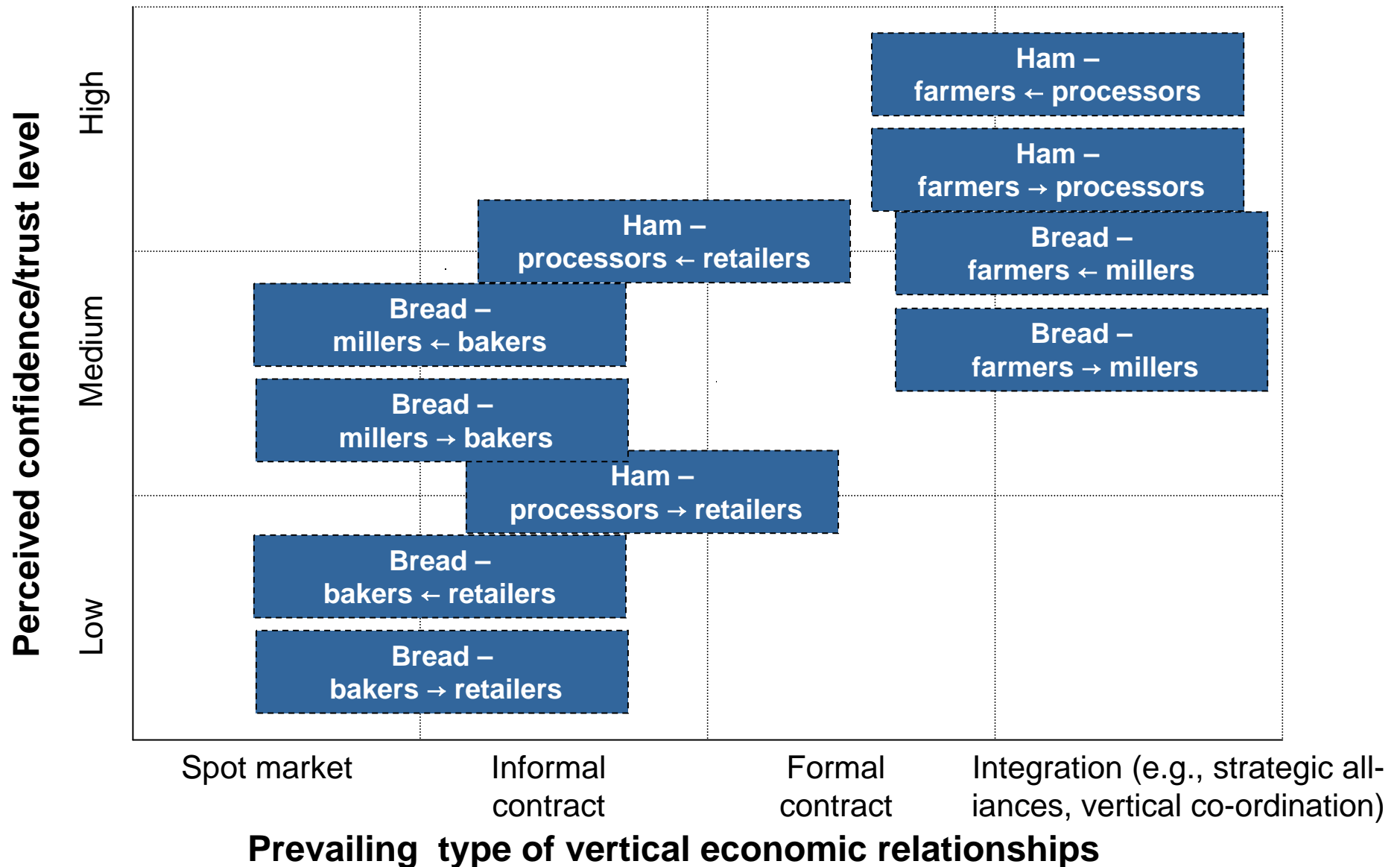
- Chain highly coordinated and integrated, particularly at the farmer-processor level. Close personal relationships facilitate trust-based relationships.
- Reasons: Chain common goal regarding safety and quality standards (Designation of Origin).
- Certain mistrust prevails further downstream.
- Reasons: Processors feel the hassle to comply with retailers demands and price pressure.

Cereals to bread chain

- Upstream, stable relationships built on mutual trust.
- Reasons: wheat production is highly variable in terms of quality and quantity creating insecurity for millers who seek assure homogeneity of supply.
- Downstream trust shifts from being interpersonally constructed to be more based on reputation.
- Reasons: increasing size of the retailers and high number of producers.

Results

SPAIN FINDINGS (2): SUMMARY



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Conclusions

TRUST LEVELS

- **At the farmer end, considerable mistrust** is apparent in many of the observed chains due to several factors, including:
 - price pressure
 - a lack of transparency in the quality achieved by agricultural products and the resultant price consequences,
 - an imbalance in the scale and market power between farmers and many of the downstream supply chain participants.
- **Further downstream the pattern of trust between chain participants is quite varied.** More regulation and further standards set by multiple retailers have led to either closer or strained relationships.

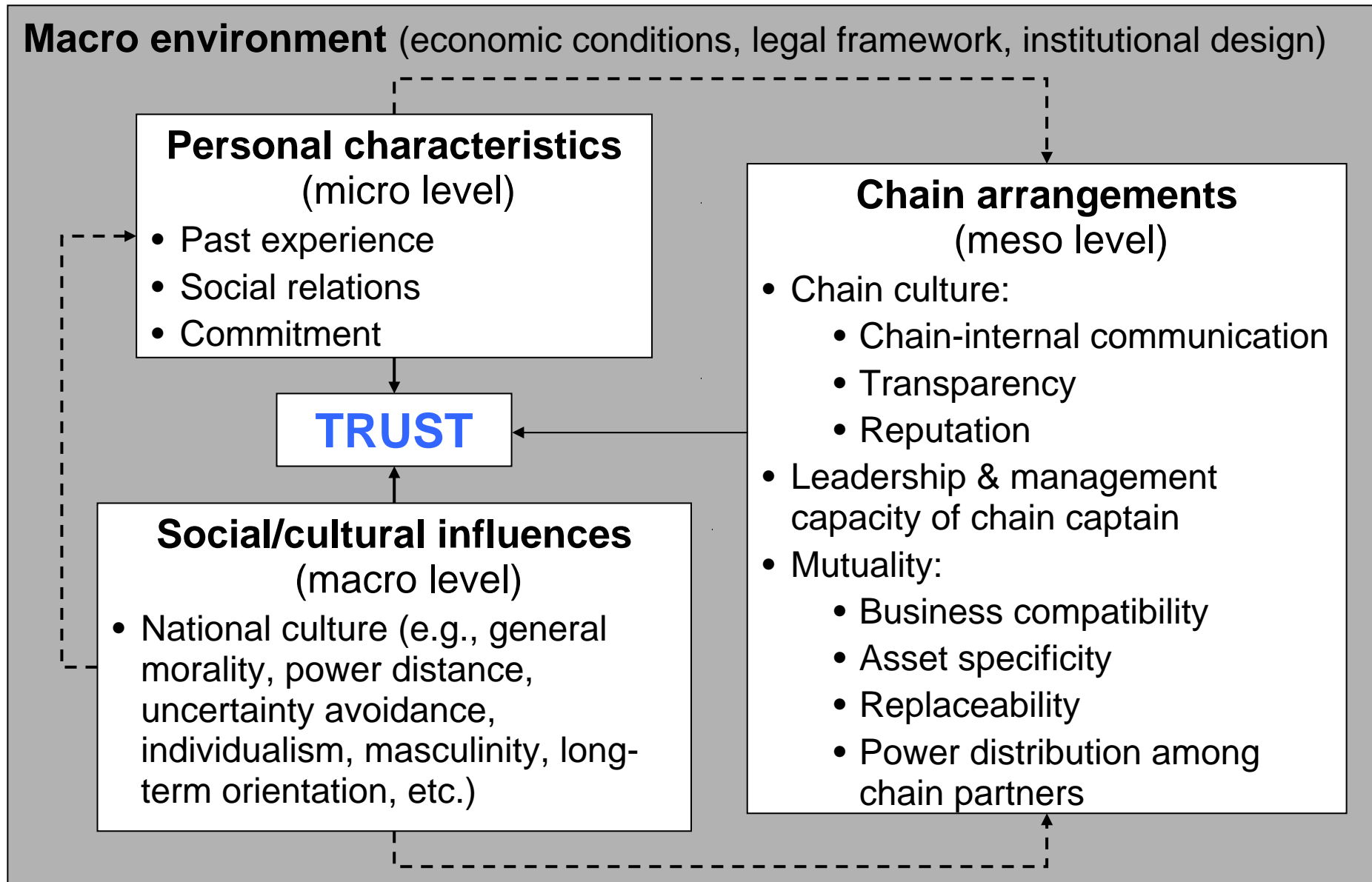
Conclusions

TRUST AND RELATIONSHIPS

- While the development of **trust** based on personal relations can offer (transaction) cost advantages in business relationships, it **may be complemented by formal contracts or other forms of integration as the involved stakes rise.**
- **The role of contracts** in competitive environments is not so crucial **for those firms with extensive bargaining power**, as they may be able to create partnerships which offer benefits such as a regular large volume outlet, and/or a share of a relatively good marketing margin.
- The exact level where the switch from trust based on social relations to the use of formal contracts or institutional systems occurs depends on **a variety of chain (business), cultural, social and personal characteristics.**

Conclusions

FACTORS INFLUENCING TRUST





FACTORS INFLUENCING TRUST-SUPPORTING MECHANISM IN EUROPEAN AGRI-FOOD CHAINS

Thank you for your attention!

www.foodcomm-eu.net