

**RISKS AFFECTING SUPPLIER - DISTRIBUTOR RELATIONSHIPS:
EVIDENCE FROM MIDDLE EASTERN COMPANIES**

Doctorate of Business Administration

By

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Abstract

For many manufacturers of fast moving consumer goods (FMCG), Middle Eastern markets are viewed as emergent economies with high growth potential. Some countries of the Middle East are witnessing a rise of modern trade channels such as hypermarket and supermarket formats, others are still dominated by traditional retailers such as wholesale and grocery store formats. Within this context, the decision to outsource the sales and distribution activities of a firm results in significant benefits but it also entails many dyadic risks between suppliers and their distributors. The purpose of this research is to understand how FMCG suppliers/manufacturers and distributors perceive relevant dyadic risks and how these risks are mitigated. The research examines the dyadic risk mitigation strategies adopted by both suppliers and distributors using relevant propositions based on transaction cost economics and agency theories. The propositions are explored by analysing 15 multiple dyadic cases which focus on the FMCG industry in three representative markets of the Middle East: Iraq, Kingdom of Saudi Arabia (KSA), and United Arab Emirates (UAE). Semi structured interviews have been conducted with 30 experts from the FMCG industry in the Middle East, split between suppliers and distributors.

The research shows that FMCG suppliers in the Middle East are affected by dyadic risks that hinder their ability to control their performance. Distributors also face dyadic risks that are due to their dependency on suppliers, which affects their future sustainability. Dyadic Risk Mitigation strategies include deploying a control system and reviewing the formal contracting structure, as suggested by agency theory, while another strategic approach relates to a partial or vertical integration of assets of high specificity, as proposed by transaction cost economics theory. The research shows that trust plays a pivotal role in the relationship between suppliers and distributors. From a practical perspective, the research contributes to proposing a transformation road map that encapsulates guidelines and tools that managers can use to diagnose their dyadic risks and map their optimal dyadic risk mitigation strategy.

Keywords: Transaction Cost Economics, Agency Theory, Dyadic Risks, Dyadic Risk Mitigation, Control, Trust, Middle East.

Dedication

I dedicate this thesis to my family, namely to my mother Isabelle, who instilled in me the values of knowledge, hard work and self-confidence. This work could not have been realised without my exceptional partner, my wife Dyna, who always stood by my side to support me and motivate me during the course of the research. Her belief in my capabilities and the role she constantly played in boosting my morale is inexpressible. I also dedicate the thesis to my son Oliver, to whom I would hope that this work can be given as an example of determination and inspiration.

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My grateful thanks also to Mr. Joe Tayard, Vice President of Group Bel, for giving me the opportunity to present the findings of my research to Group Bel's stakeholders and granting me the opportunity to drive the transformation in practice of Group Bel's distribution model in the Middle East.

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List of Acronyms

ACS: Advanced Control System
AT: Agency Theory
BCS: Basic Control System
BRIC: Brazil, Russia, India, and China
CPG: Consumer Packaged Goods
CS: Control System
DRM: Dyadic Risk Mitigation
ERP: Enterprise Resource Planning
ET: Evolutionary Theory
EY: Ernst and Young
FMCG: Fast Moving Consumer Goods
FOM: Full Outsource Model
KSA: Kingdom of Saudi Arabia
MENA: Middle East and North Africa
NME: Near and Middle East
P&G: Procter and Gamble
PIM: Partial Integrated Model
ROI: Return on Investment
S&OP: Sales and Operation Planning
TCE: Transaction Cost Economics
UAE: United Arab Emirates
VIM: Vertical Integrated Model

Chapter 1. Introduction

Although some countries like Syria and Iraq are among the most unsafe in the world, the Middle East region is viewed as an emergent economy with high growth potential. Growth opportunities in the Middle East are driven by positive socio economic indicators that encourage researchers and practitioners to explore the various issues that may block firms from capturing this potential. Before focusing on the issue that this research intends to explore, an economic and an industry outlook are presented in Section 1.1 to frame the context of the thesis. Section 1.2 presents the research framework, which covers the purpose, the theoretical approach and the contribution of the research. Section 1.3 concludes chapter 1 by outlining the research map.

1.1 Thesis Context

Emerging markets like the Middle East and Africa are of increasing interest to many multinational firms wishing to expand their operations into developing economies. Positive demographic factors and optimistic economic projections are driving these firms to consider accessing certain emerging markets including the Middle East and Africa. Figure 1.1 (Frost and Sullivan, 2011) shows that the MENA (Middle East and North Africa) region and Asia will make a greater contribution to World GDP by the year 2020.

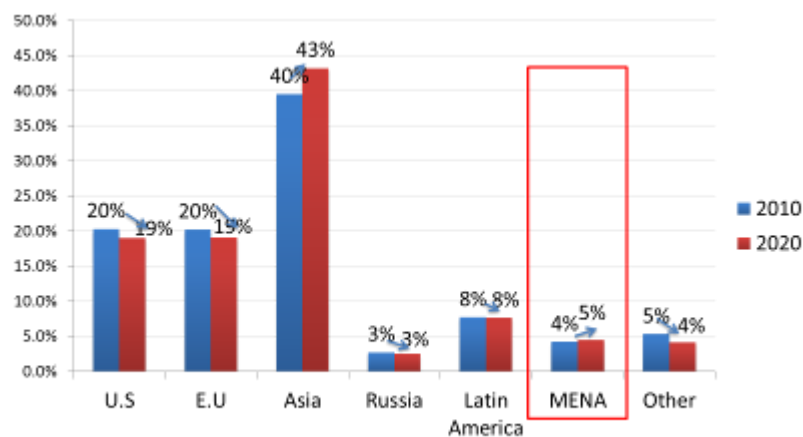


Figure 1.1. Contributors to world GDP by 2020

This contribution is justified by aggressive GDP growth forecasts in most of the Middle Eastern countries, as illustrated in Figure 1.2 (Frost and Sullivan, 2011).

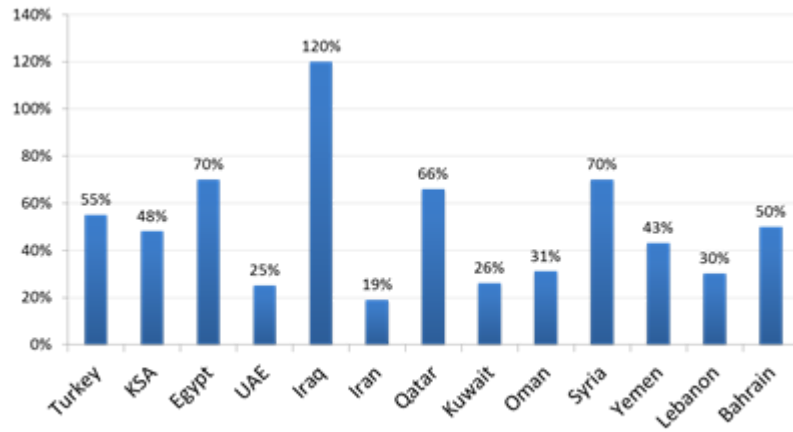


Figure 1.2. GDP Growth Forecast 2020

Figure 1.3 shows that 83% of global oil reserves are expected to be controlled by the MENA region. Oil prices are expected to rise as the demand for global energy in emerging economies like India and China is expected to grow by 36% from 2011 to 2030 (BP, 2013). As a result, the economies that control the global oil reserves are expected to prosper.

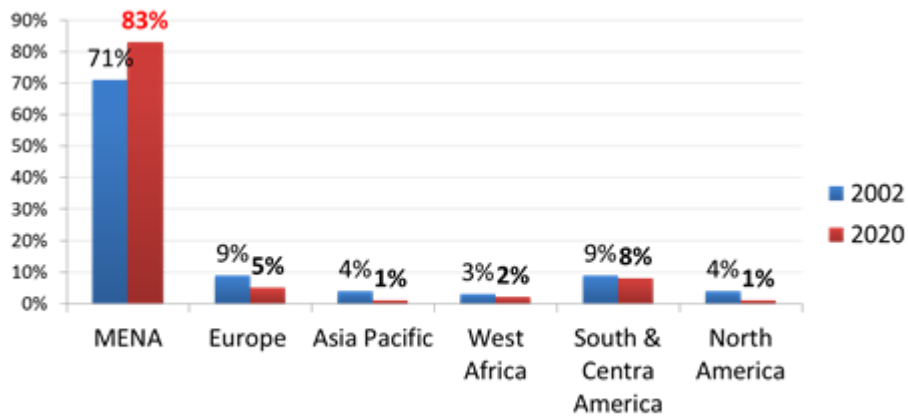


Figure 1.3. Oil Reserve Forecast 2020

The favourable economic trend is supported by encouraging demographic trends. Compared to 1990, the population in the Middle East is expected to double by 2030, while the population in Europe is expected to decline, as presented in Figure 1.4 (United Nation Population Division Report, 2011).

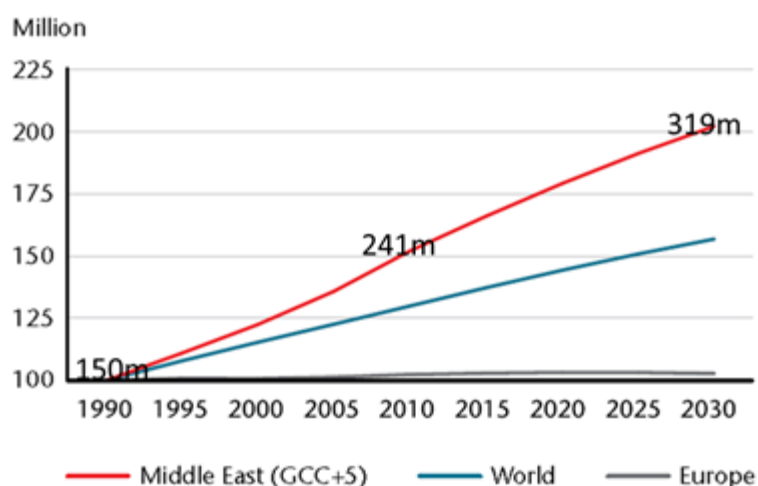


Figure 1.4. Population Growth: Middle East versus (World and Europe)

Population growth in the Middle East is a major opportunity, especially for mass consumption industries like the FMCG. The population is also expected to be richer, which makes the demographic opportunity even more attractive. The GDP per capita for key countries in the Middle East is expected to accelerate by 2020, as illustrated in Table 1.1 (World Bank, 2012).

	2005	2010	2015	2020
Total GCC real GDP, US\$m	615,431	788,406	991,985	1,237,651
% annual growth, five-year period		5.4	4.9	4.5
Real GDP per capita, US\$	17,542	18,643	20,260	22,543
% annual growth, five-year period		1.3	1.7	2.1

GCC: Gulf Cooperation Council
(Saudi Arabia, Kuwait, Bahrain, Qatar, the
United Arab Emirates, the Sultanate of
Oman).

Table 1.1. GDP per-capita Evolution

Figure 1.5 (World Bank, 2012) shows that Qatar, UAE, and Kuwait have the highest per capita income compared to developed global economies.

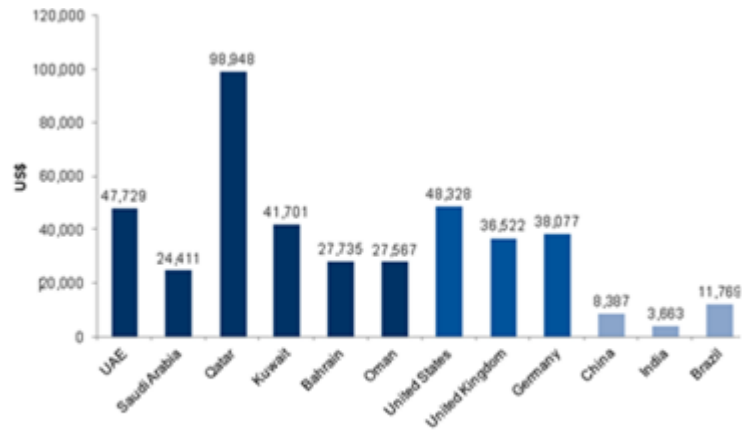


Figure 1.5. GDP per-capita Comparison (2011 Level)

This optimistic outlook has driven global investors to seek investment opportunities in the Middle East. Even in the midst of the Arab uprising in 2011, Middle Eastern markets remained highly attractive for foreign direct investments (Ernst and Young, 2012), as illustrated in Figure 1.6 (Ernst and Young, 2012).

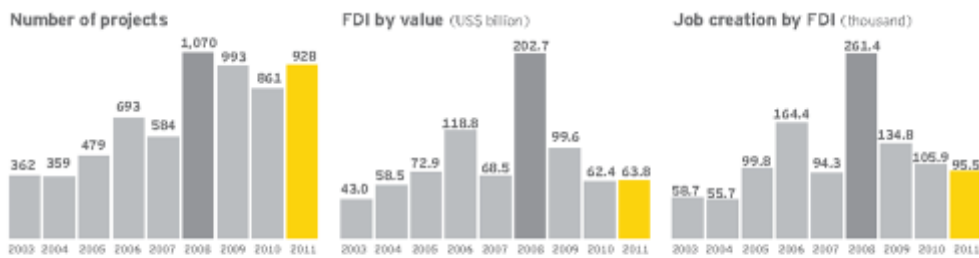


Figure 1.6. Foreign Direct Investment Middle East – Arab Spring Period

Foreign direct investments in the FMCG sector represent 17.3% of the total number of projects and 41.4% in terms of value (Ernst and Young, 2012). Compared to 2003, a total of 1,098 projects in the retail and consumer product sectors have been introduced. The FMCG industry has positively reacted to these trends, which also confirms the appeal of such an environment. To further understand how the FMCG industry is affected by these trends, the following section focuses on the FMCG industry, its major global players, the key challenges faced, and the areas of concern of this research.

1.1.1 About the fast moving consumer goods industry

The Fast Moving Consumer Goods (FMCG), also called Consumer Package Goods (CPG), industry is involved in the manufacturing of low priced products that are used with a limited number of consumption occasions (Baron *et al.*, 1991). According to Euromonitor, the industry is also concerned with the distribution and marketing of food

and non-food FMCG products. FMCG food (consumable) categories are segmented into the following subcategories: baby food, canned food, chilled processed food, confectionery, dairy, dried and frozen processed food, meal replacement, noodles, pasta, ready meals and sauces, soups and beverages. Common non-food categories include pharmaceutical products, consumer electronics products, household, detergents, and soap and tobacco products.

1.1.2 Fast moving consumer goods suppliers

From the supply side, the industry is dominated by large multinational companies, illustrated in Table 1.2 (OS&C, 2013). These suppliers represent 80% of the total FMCG business with a combined net sale of US\$ 857,626 billion according to OC&C (2013).

	Top 25 FMCG Suppliers	2012 retail revenue (US\$m)
1	Nestlé	98353.00
2	Procter Gamble	83680.00
3	Unilever	65998.00
4	Pepsico	65492.00
5	Coca-Cola Company	47890.00
6	AB Inbev	39758.00
7	JBS	37253.00
8	Mondelez	35015.00
9	Archer Daniels Midland	34715.00
10	Tyson Foods	33278.00
11	Philip Morris International	31377.00
12	L'Oreal	28885.00
13	Danone	26835.00
14	British American Tobacco	24075.00
15	Heineken Holding	23639.00
16	Japan Tobacco	23324.00
17	Asahi Breweries	19408.00
18	Kirin Breweries	19346.00
19	Kraft Foods	18339.00
20	Altria Group	17350.00
21	Colgate Palmolive	17085.00
22	Diageo	17057.00
23	SAB Miller	16713.00
24	General Mills	16658.00
25	Kimberly Clark	16103.00
	Total Net Sales in M\$ of top 25 FMCG suppliers	857,626.00

Table 1.2. Net Sales of top 25 global Fast Moving Consuming Goods suppliers

The global position of each of the above 25 multinational suppliers makes them leaders in the categories they are participating in. The latest Merger and Acquisition trends in the FMCG industry shows that to strengthen their global category dominance, FMCG suppliers are seeking to acquire brands that fit within their total portfolio: Mondelez (previously Kraft) acquired Cadbury to strengthen its position in the confectionary category. Kellogg's acquired Pringles from P&G to gain share in the snacking category, and P&G acquired Gillette to strengthen its position in the beauty and grooming category.

The global performance of FMCG suppliers shows a slowdown in their growth. According to research conducted by OC&C Strategy Consultants and The Grocer, the world's growth of the top 50 FMCG suppliers decreased from 5.6 % in 2012 to 2.9% in 2013, mainly due to slower growth rates in BRIC markets, which are witnessing rising trends of local FMCG players. Multinational FMCG players are thus losing share to local FMCG players. A report by Booz & co (2010) shows how large Indian FMCG players (see Figure 1.7) are growing at faster rates (dotted red line) than multinational ones.

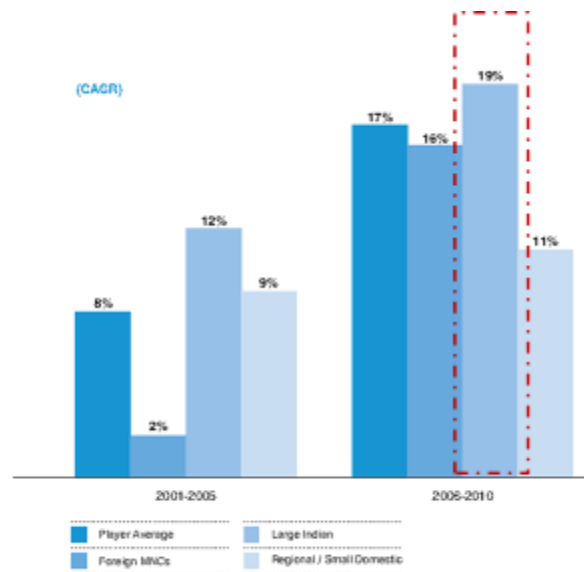


Figure 1.7. Sales Growth Fast Moving Consumer Goods Players India

The deceleration in their growth did not have major implications for the profitability of multinational FMCG players. Gross margins grew by 0.7% in 2013 compared with 0.1% in 2012 and EBIT margins are up by 0.9% (OC&C, 2013). The challenge of FMCG suppliers in BRIC and other emerging economies is offset by positive socio demographic trends, as presented earlier. One billion additional middle class consumers are expected to be added to BRIC economies by 2025 (McKinsey, 2013). Figure 1.8 (Mckinsey, 2013) shows that consumption in emerging markets is expected to account for 47% (US\$ 30 trillion) of global consumption by 2025 compared to 31% (US\$ 12 trillion) in 2010.

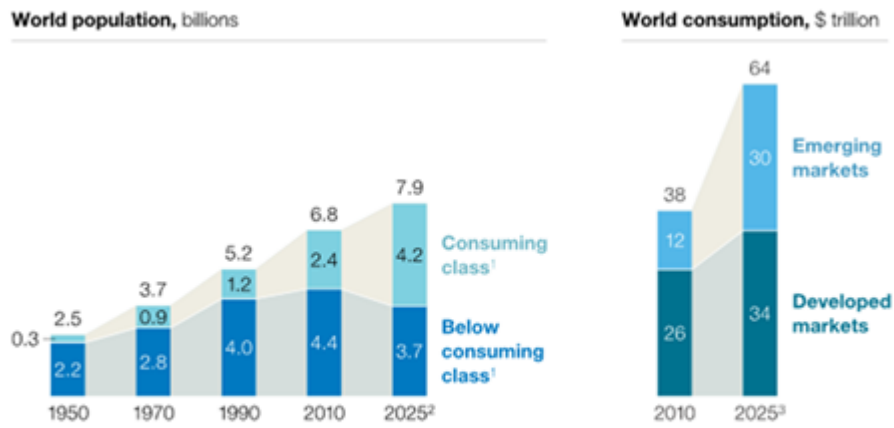


Figure 1.8. Consuming class by 2025

In line with the above, a study by A.T. Kearney (2012) shows that the share of consumer spending on FMCG products in emerging markets is expected to grow from 17% in 2010 to 26% in 2020. Five countries in the Middle East (KSA, Qatar, Bahrain, Kuwait, and UAE) were included in the examined panel (see Figure 1.9, green bars).

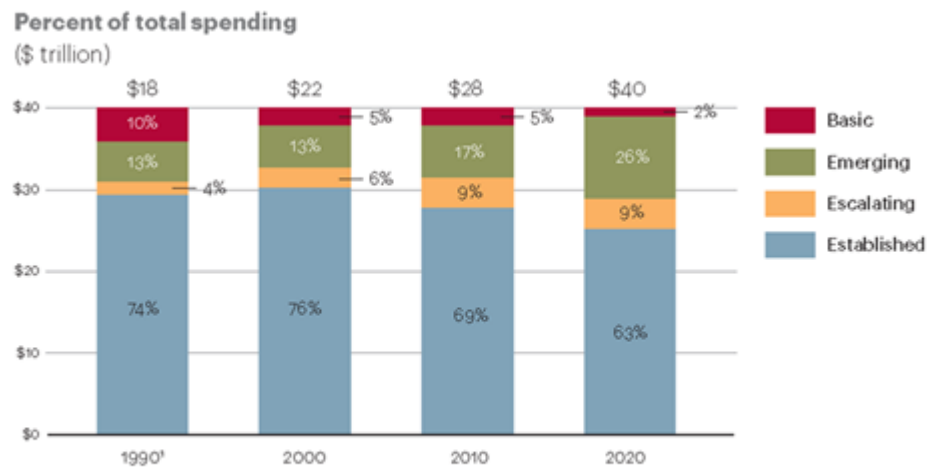


Figure 1.9. Consumer Spending Evolution

Consumer spending in the Gulf food retail sector is expected to reach US\$ 106 billion in the next five years, with food accounting for 28% of the total spending, with KSA and UAE combined accounting for 75% of the total food market growth (Alpen Capital, 2011). Whether suppliers or distributors, FMCG companies are not only facing an optimistic socio-economic environment, but also a dynamic channel environment at the same time.

1.1.3 Fast moving consumer goods retailers

Faced with these positive indicators, multinational FMCG suppliers are facing the ongoing challenge of global retail power. The top 25 global FMCG retailers are nearly 2.5 times bigger than the top 25 global FMCG suppliers as see in Table 1.3 (Deloitte, 2014).

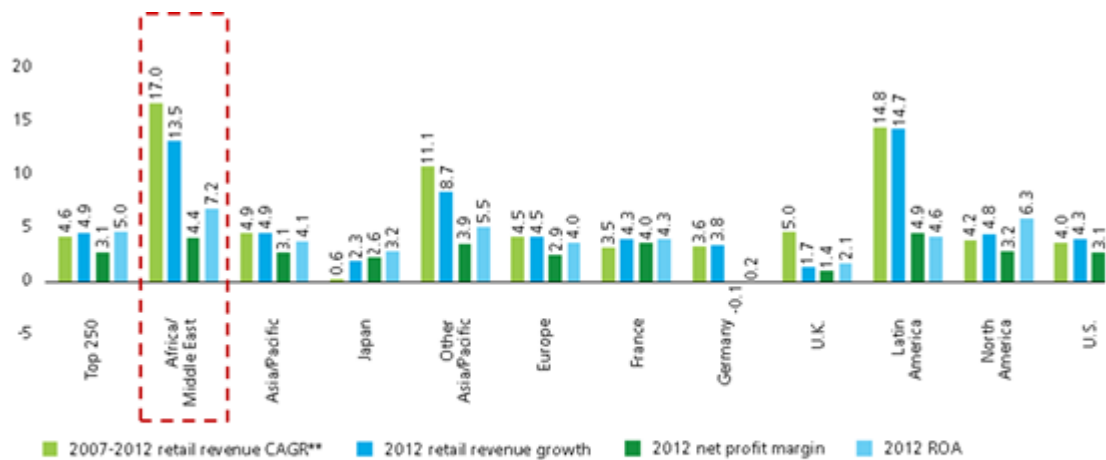
	Name of company	Country of origin	2012 retail revenue (US\$m)
1	Wal-Mart Stores, Inc.	U.S	469,162
2	Tesco PLC	U.K	101,269
3	Costco Wholesale Corporation	U.S	99,137
4	Carrefour S.A.	France	98,757
5	The Kroger Co.	U.S	96,751
6	Schwarz Unternehmens Treuhand KG	Germany	87,236
7	Metro AG	Germany	85,832
8	The Home Depot, Inc.	U.S	74,754
9	Aldi Einkauf GmbH & Co. oHG	Germany	73,035
10	Target Corporation	U.S	71,960
11	Walgreen Co.	U.S	71,633
12	CVS Caremark Corp.	U.S	63,654
13	Aeon Co., Ltd	Japan	63,100
14	Groupe Auchan SA	France	59,041
15	Woolworths Limited	Australia	58,602
16	Amazon.com, Inc.	U.S	58,570
17	Seven & I Holdings Co., Ltd.	Japan	58,329
18	Edeka Zentrale AG & Co.KG	Germany	55,944
19	Wesfarmers Limited	Australia	54,231
20	Casino Guichard-Perrachon S.A	France	53,375
21	Lowe's Companies, Inc	U.S	50,521
22	Rewe Combine	Germany	48,984
23	Best Buy Co., Inc.	U.S	45,085
24	Centres Distributeurs E. Leclerc	France	44,807
25	Safeway Inc.	U.S	43,322
Total Net Sales in M\$ of top 25 FMCG retailers			2,087,091.00

Table 1.3. Net sales of global top 25 retailers

The UK FMCG retail market is considered to be among the most concentrated in the world (Kuipers, 1999). A major threat for FMCG suppliers is the retailers' private label lines, which account for 23% of total retail sales in France and 44% in the UK (Battezzati and Magnani, 2000). Although private label products may erode retailers' profitability, research shows that the use of retail brands to increase consumer loyalty may increase profits for retailers as consumers tend to shift from branded products to private label products (Ailawadi, 2001). This puts more pressure on the shelf space occupied by FMCG suppliers as retailers tend to allocate more space for their own products. Private labels are also priced lower, which negatively affects the margins achieved by FMCG suppliers, forcing them to invest more in promotions in order to reduce the price gap.

In the Middle East, the situation is different as the evolution in retail is not very similar to the evolution in Europe. Private labels in the Middle East only account for 5% of total retail sales (Booze & co, 2011). However, retailers in the Middle East are gaining market share from the positive economic outlook, as well as the accelerating growth

trends. Figure 1.10 (Deloitte, 2014) shows that the growth rates of the top retailers in the Middle East are the highest in the world (red dotted line).



**Figure 1.10. Sales growth and profitability by region/country
Top Retailers**

The FMCG retail sector in the Middle East is composed of a mature modern trade channel that includes hypermarket and supermarket stores, and a fragmented traditional trade channel that groups grocery and wholesale retailers. Modern trade retailers, whether international or local hypermarket and supermarket chains, account for more than 50% of total consumption in the Gulf region, reaching approximately 70% in UAE (A.T. Kearney, 2013). These retailers are growing in the Gulf at an average of 10% year on year, as illustrated in Figure 1.11 (Alpen Capital, 2011).

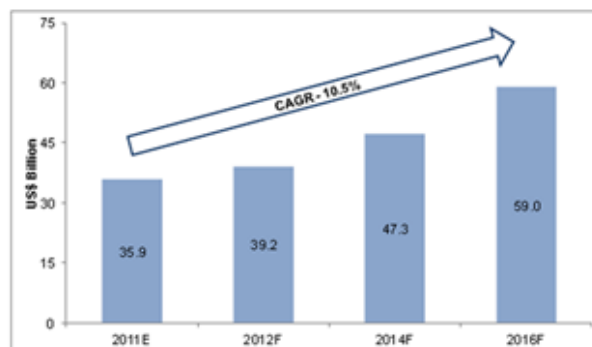


Figure 1.11. Hypermarket/Supermarket Growth Forecasts Gulf

Figure 1.12 (Alpen Capital, 2011) shows that the hypermarket and supermarket chains in KSA are predicted to grow by 13.2% between 2011 and 2016, which is above their average growth of 10.5% in the Gulf.

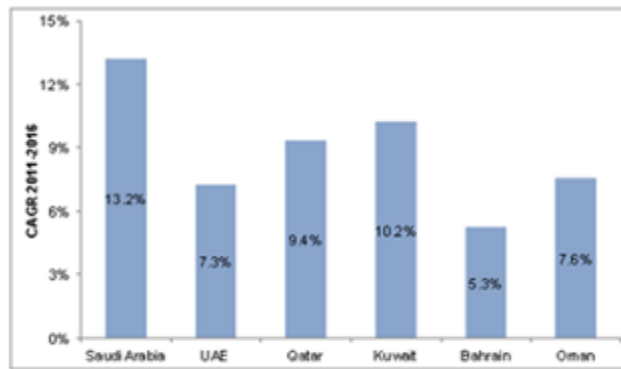


Figure 1.12. Hypermarket/Supermarket Growth Forecasts by Country

With the rise in hypermarket and supermarket formats in the Gulf, the modern trade channel is expected to become more concentrated, thus increasing competition among retailers and reducing prices to attract more shoppers. Although the modern trade structure is not as concentrated as it is in countries like the United Kingdom and France, the combined market share of the top three retailers' amounts to 24% in UAE, and to 12% in KSA, growing at accelerated rates as presented in Figure 1.13 (A.T. Kearney, 2013).

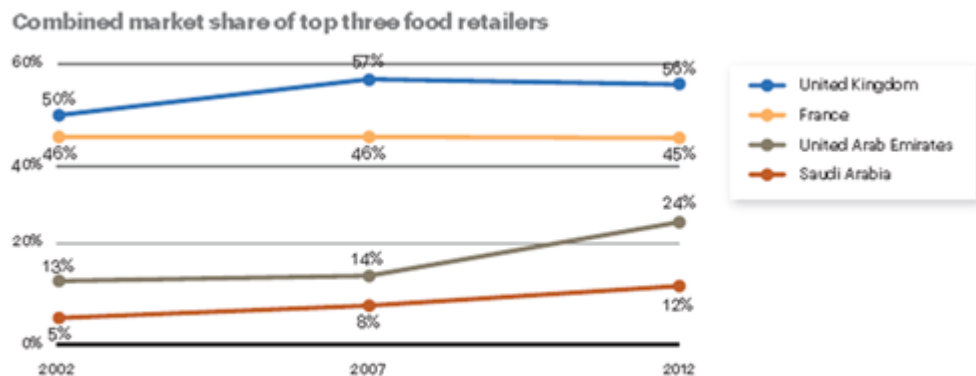


Figure 1.13. Concentration of Food Retailers

1.1.4 Typical fast moving consumer goods supply chain in Middle East

These indicators have positive implications for FMCG suppliers. The share of food sales from the overall retail sales in the Gulf countries is expected to increase from 47% in 2011 to 49.5% in 2016, as illustrated in Figure 1.14 (Alpen Capital, 2011), mainly driven by value-added food products, which are expected to outperform other food categories.

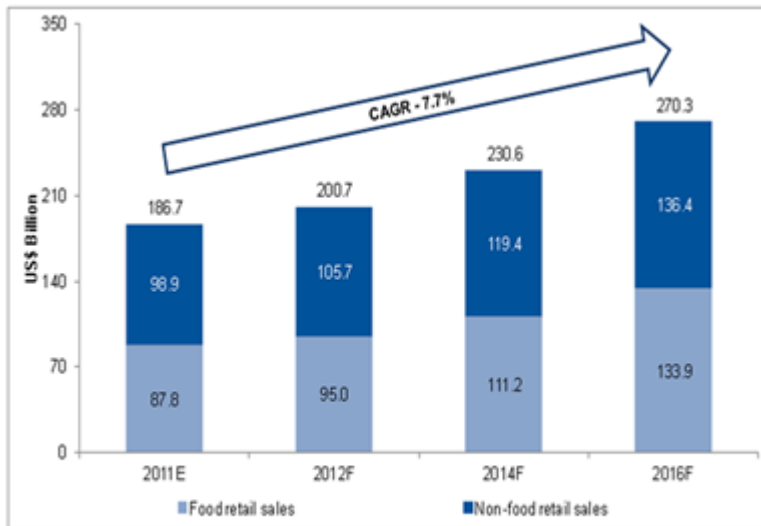


Figure 1.14. Share of Food Retail Sales

Over the next five years, the opportunity for food retailers is anticipated to surpass US\$ 23 billion, with a growing contribution from several Gulf countries, as shown in Figure 1.15 (A.T. Kearney, 2013).

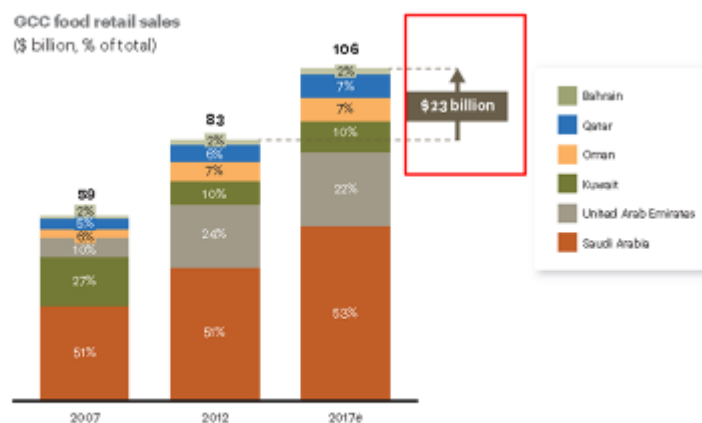


Figure 1.15. Fast Moving Consumer Goods Food Retailers opportunity over the next 5 years

The context of FMCG supply chains in the Middle East can be summarised as follows: they are facing favourable socio demographic trends (opportunity on the demand side of the chain) and an evolution of their retail environment (opportunity or challenge on the downstream side of the chain). A typical FMCG supply chain is composed of three interlinked rings, as illustrated in Figure 1.16 (Battezzati & Magnani, 2000).

1. The operations: include the external players operating in the ring, the suppliers and other third parties.
2. The design functions: focus on the adjustment of to the variability of market demand.

- The market components: include the distributive channel up to the final consumer.

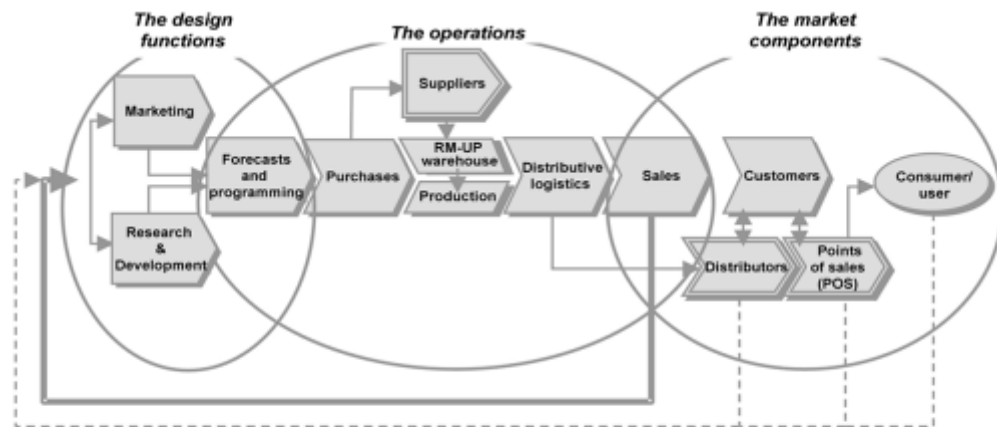


Figure 1.16. Typical Fast Moving Consumer Goods supply chain

The difference between FMCG supply chains in Europe and the Middle East is not in the structure of the chain, but in the physical location of the upstream activities (mainly production) and in the role of the downstream activities (mainly distributors).

- Physical location of production activities:** Multinational FMCG suppliers in Europe have established numerous production sites in their main European markets. Although many FMCG suppliers in the Middle East (Mondelez, Mars, Nestle, P&G) have established factories in key Middle Eastern markets (KSA, UAE, Egypt), the reliance on international sourcing is still hindering these companies from fully optimizing their supply chains from the sourcing destination through to the local markets. It also makes them less flexible in adapting their products (design sphere) to consumer needs. With the increasing growth contribution of Middle Eastern markets, suppliers need to seek different sourcing alternatives to secure capacity and enhance their competitiveness across their upstream supply chain activities. Failure to do so may put these suppliers at a competitive disadvantage on the production front.
- Role of the distributor:** There is a major difference between Europe and the Middle East when it comes to the role of the distributor in the supply chain. A distributor in Europe can distribute two brands that are competitive in the same market. For instance, Intamarque in the UK distributes the brands of both P&G and Unilever. The role of a distributor in the UK is closer to a traditional wholesaler.

As a result, an FMCG supplier may deal with a wide number of distributors but the sales function is directly managed by the supplier. In the Middle East, distributors handle the logistics and the sales activities; they are protected by law and act as the exclusive agents of multinational suppliers in the market. A distributor in the Middle East thus plays the role of a buyer (buying or importing FMCG products), the role of a seller (selling to the different channels), as well as the role of a logistics provider (storing and delivering the products). Distributors in the Middle East are active supply chain partners. FMCG suppliers in the Middle East usually deal with one distributor in each country. Exceptions of suppliers dealing with more than one distributor may exist, however. The FMCG distributor in the Middle East has a strategic role in the effective execution of the downstream supply chain activities. With the continuous evolution in trade and the growth potential of Middle Eastern markets, the way the relationship between suppliers and distributors was organised in the past may not be sustainable in the present or the future. The high dependency of suppliers on distributors may deter them from capturing the existing and future growth opportunities of emerging markets like the Middle East.

1.2 Research Framework

1.2.1 Purpose of the research

Within the dynamic and growing environment presented above, the FMCG supply chain in the Middle East is affected by upstream challenges associated with the high dependency on international sourcing as well as downstream challenges associated with the high dependency of FMCG suppliers on distributors. The research is strictly concerned with the challenges across the downstream supply chain activities (see figure 1.17), and more specifically aims at exploring the risks associated with the bilateral dependency of FMCG suppliers on distributors. The research refers to these risks as dyadic risks, as they concern two dyadic members of the chain (supplier and distributor). The research thus aims to explore how FMCG suppliers and distributors in the Middle East perceive the dyadic risks affecting their relationships and the strategies that could be adopted to mitigate them. The research focuses on the dyadic relationship

between two channel members, suppliers and distributors, highlighted in blue in Figure 1.17.

The questions addressed by the research are presented below:

- How do FMCG suppliers and distributors in the Middle East perceive the dyadic risks affecting their relationships?
- How are FMCG suppliers in the Middle East mitigating dyadic risks?
- What role does trust play in dyadic relationships in the Middle East?
- How are FMCG distributors in the Middle East mitigating dyadic risks?

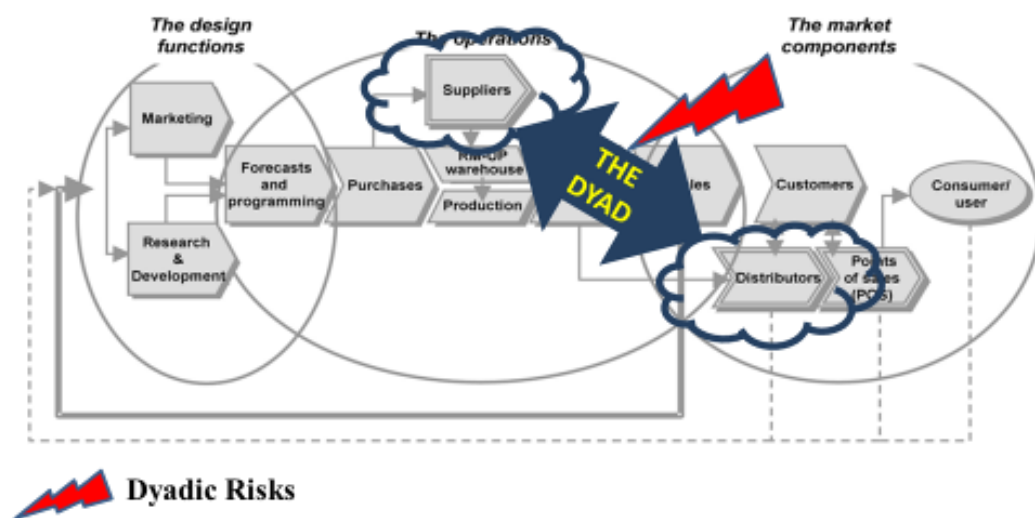


Figure 1.17. Dyadic Relationship Fast Moving Consumer Goods Suppliers and Distributors in Middle East

1.2.2 Culture and cultural significance

Multinational FMCG suppliers like P&G, Nestle, Kraft, and many others started operating in the Middle East by exporting their products to local distributors. Distributors are often family businesses (Dunn, 1979) that have the financial means to import from international markets and distribute to local markets. Distributors who were the first to partner with multinational FMCG suppliers had major advantages over others: 1) they positioned themselves as exclusive representatives of FMCG suppliers in the market and 2) they were supported by local agency laws that obliged multinational companies (suppliers) to be represented in local markets by local firms (distributors). Such laws (Homsy, 1983) obliged suppliers to use distributors to access the Gulf markets of the Middle East, thus giving local distributors legitimate power to sustain

their exclusivity. Most multinational suppliers thus appointed local distributors in each of the markets of the Middle East. Suppliers with segmented portfolios even appointed more than one distributor.

Most of today's supplier distributor relationships were formed more than 40 years ago. The growth of their businesses in the Middle East and the growing importance of certain areas like KSA, Iraq, and the UAE drove FMCG suppliers closer to local markets. At this stage, cultural clashes started to occur between multinational suppliers who consider information sharing as normal behaviour in an exclusive supplier distributor relationship, and local distributors, who believe that information sharing might be a threat to their existence. Whilst some distributors embraced such legal protection and continued to feel threatened when asked for additional information, others directed their resources towards understanding their suppliers' culture. By embracing a culture that is based on openness and information sharing, these distributors did not take their legal protection for granted and pursued firmer safeguards. Cases portraying these types of relationships show that distributors who succeeded in developing trust were able to build relationships with suppliers that still exist today. The research also shows that the failure to develop trust puts the relationship between supplier and distributors at risk. A transfer of culture has been identified through the exchange of know-how between suppliers and distributors.

1.2.3 Research approach

To address the research questions, several propositions were developed based on the transaction cost economics (TCE) and agency theories (AT). These theories were selected for their ability to explain the risks that affect firms when they decide to enter into contractual relationships. TCE focuses on the alteration of a firm's governance structure as a means to mitigate dyadic risks, and is further explored in Chapter 2. The agency theory explores the different formal controlling mechanisms that suppliers can adopt to control the opportunistic behaviour of their distributors (agents). The role of trust is explored not only to respond to gaps in the literature, but also for its importance in a social context like the Middle East.

Fifteen multiple dyadic cases which focus on the fast moving consumer goods (FMCG) industry have been selected in three representative markets in the Middle East: Iraq,

KSA, and UAE. These markets differ following the evolution in the trade: Iraq is a traditional trade market, UAE is a modern trade market, and KSA is a mixed channel market. Data was collected by conducting semi structured interviews with 30 key informants from multinational FMCG suppliers and distributors, and then transcribed and analysed using NVivo software.

1.2.4 Research contribution

From an academic perspective, there is a scarcity of relevant work conducted in the Middle East. This research shows that TCE and agency theories provide adequate theoretical avenues to understand dyadic risks and to frame various risk mitigation strategies. The research also demonstrates the role of trust, which can complement the transactional approach in some cases.

From a practical perspective, there is a need for suppliers in UAE and KSA to reassess their relationships with distributors when such relationships deter them from achieving their growth ambitions. To help suppliers and distributors mitigate dyadic risks, the research proposes a transformation road map that includes the tools and the guidelines that managers can use in practice to assess their dyadic risks and map their dyadic risk mitigation strategies.

1.3 Thesis Structure

The literature review chapter (Chapter 2) starts by presenting the relevant literature chosen for the research. Emphasis is given to outsourcing risks, the agency theory, the transaction cost economics theory, and the applicability of AT and TCE theories. The focus then turns to the relational and the evolutionary approaches as a complement to the transactional approach. The gaps in the literature are then presented and the chapter concludes with the propositions raised by the research.

The methodology used to explore the propositions is discussed in Chapter 3, which is structured into four sections and starts by giving a brief overview on the research philosophy, followed by an emphasis on the reasons behind the epistemological stance

adopted by the research. The research methodology and the methods used to collect and analyse data are then respectively discussed.

The findings are presented in Chapter 4, which discusses the evidence gathered from the field in relation to the literature review. Each proposition is individually examined, starting with the propositions that explore the risks affecting suppliers and distributors, followed by emphasis on the dyadic risk mitigation strategies adopted by suppliers, and distributors.

Chapter 5 concludes by presenting a summary of the research findings. The academic and practical contributions of the thesis are then discussed. The chapter concludes with the generalisability of the research and the limitations of the thesis and the opportunities for further research.

Material used in the research that can help the reader understand specific topics are presented in the appendix.

Chapter 2. Literature Review

This chapter covers the literature selected to address the research questions. The chapter starts with an overview of dyadic risks (Section 2.1), and then focuses on the relevant literature selected to understand the risk mitigation strategies. Emphasis is placed on the agency theory (Section 2.2) and the transaction cost economics theory (Section 2.3). Examples of the applicability of both the AT and TCE theories are then considered (Section 2.4). The theories have been criticised by relational and evolutionary theorists; the perspective of each is discussed in Sections 2.5 and 2.6 respectively. The chapter concludes with a focus on the literature review gaps (Section 2.7) and the propositions that the research intends to explore (Section 2.8).

2.1 Overview of Dyadic Risks

2.1.1 *The notion of outsourcing risks*

The existing body of literature exploring supply chain risks is relatively mature (Johnson, 2001), mainly driven by the increase in globalisation and the increasing trend in outsourcing across the supply chain. Following a report published in 2011 by Oxford Economics for the Business Services Association, the turnover across the outsourced markets in the UK is estimated to be at £207 billion per annum, equivalent to some 8% of economy wide output. Figure 2.1 (Oxford Economics for the Business Services Association, 2011) shows that 28% of the outsourced activities take place in the manufacturing, the wholesale and the retail industries (highlighted in red).

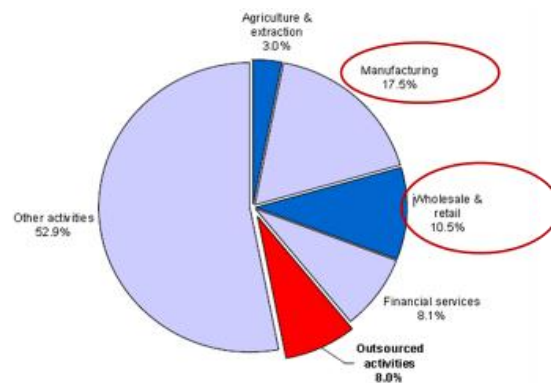


Figure 2.1. Outsourced services' share in UK output, 2009

In the Middle East, many international FMCG companies outsource the sales and distribution activities to local distributors. The volume of the business that goes through distributors in the Middle East is estimated at around US\$43 billion (Booz & Co., 2011). The local laws in the Middle East obliging foreign FMCG suppliers to appoint or partner with local distributors were originally formed to protect local companies from globalisation and to control the wealth generated by oil rich countries. As a result, the core sales and distribution activities (port clearance, logistics, sales and merchandizing) have been outsourced to well-established distributors.

For suppliers, the outsourcing model might lead to benefits but can also engender many risks. Various definitions of risks are found in the literature, most of which agree that risk is associated with uncertainty and the probability that certain undesired events are likely to occur in the future. An undesired event is defined as a type of event, be it controllable or uncontrollable, that has a negative impact on performance. In epidemiology, risk is defined as the probability that a particular outcome will occur following a particular exposure (Last, 2001). In operations management, risk is defined as the impact of unexpected events on business performance (Christopher and Lee, 2004).

As defined by Lindroth and Norrman (2001), supply chain risk management is collaborating with partners in a supply chain to apply risk management process tools to deal with risks and uncertainties that impact on logistics-related activities or resources. The collaboration between partners is not restricted to the management of logistical activities but can also incorporate other downstream activities such as sales and merchandizing. Given this definition, the unit analysed when discussing supply chain risks should focus on the relationship between sellers and buyers (dyadic forms of relationship or networks).

Sellers and buyers view risks from two angles: the sources of risks and their consequences. Following a cross industry analysis presented in Table 2.1 (Christopher *et al.*, 2003) that includes FMCG manufacturing companies (highlighted in red), Christopher *et al.* (2003) distinguish between the sources of the risk construct and its consequences. Sources of risk are defined as the environmental, organisational, or supply chain related variables which cannot be predicted with certainty, thus leading to

a possible negative impact on the supply chain outcome variables (Christopher *et al.*, 2003). A risk consequence refers to the impact of the sources of risk on supply chain outcomes, such as the impact of fuel price volatility on transportation costs.

Manufacturing Companies	Retail Companies	Logistics Service Provider
<ul style="list-style-type: none"> ▪ Aerospace ▪ Automotive ▪ Brewing ▪ Building Supplies (SME) ▪ Capital Equipment ▪ Cosmetics ▪ Groceries (packaged foods) ▪ Cleaning Products (household) ▪ Healthcare ▪ Packaging (pharmaceutical) ▪ Tobacco 	<ul style="list-style-type: none"> ▪ Grocery ▪ Apparel ▪ Cosmetics ▪ Seasonal Gifts 	<ul style="list-style-type: none"> ▪ Management Consultancy ▪ Freight Forwarding ▪ Shipping ▪ Third Party Logistics

Table 2.1. Industry sectors

According to Christopher *et al.* (2003), the sources of risk relevant to supply chains are organised into three categories:

- Risks external to the supply chain: are uncontrollable and affect all members of the supply chain. Examples include political, natural, social, and industry/market risks.
- Risks internal to the supply chain: can affect one member of the dyad more than the other. Examples include labour strikes, cost inflation, machine failure.
- Network related risks: mainly result from the interaction between organisations in the supply chain. Examples include insufficient interaction, and lack of cooperation.

The research explores network related risks associated with outsourcing the sales and distribution activities in the Middle East. Christopher and Lee (2001) differentiate between three types of network related risks:

- Lack of ownership: resulting from distorting boundaries between buying and selling organisations. This is mainly driven by trends like outsourcing, and focuses on core competencies, the high dependency on manufacturing, distribution and logistics partners, which results in confused lines of responsibilities.
- Chaos: resulting from over-reactions, unnecessary interventions, second-guessing, mistrust, and distorted information.

- Inertia: lack of adaptation to environmental changes and market signals, which may deter organisations from reacting to competition and shifts in customer demands.

Network risks have been given considerable attention in the literature with the increasing outsourcing trends and the need for companies to move to inter-firm cooperation to sustain their competitive advantage (Lindroth and Norrman, 2001). Failure to address these risks may lead to further vulnerability across the supply chain (Svensson, 2000). The understanding of dyadic risks requires a deeper elaboration of the notion of network risks, a dyad being a network composed of two members.

2.1.2 Focus on dyadic/network risks

Dyadic or Inter-organisational risks arise when two companies decide to enter into an on-going business relationship. Macneil (1974) identifies two types of economic exchange: transactional and relational. The transactional type is discrete in nature, and the concerned parties pay little attention to the impact of the transaction on future exchanges. Buying a chocolate bar from a grocery store during a holiday trip is an example. The relational type includes relationships that have a past and that are expected to have a future. The behaviour of the concerned parties affects the continuation of the exchange. This is why relational theorists have shown interest in the role of trust in organisational relationships. Trust can contribute to evolving the relationship and a lack of trust results in its discontinuation. The relationship between inter-organisational risks and trust has been underlined by many authors (Ring and Van de Ven, 1994; Zajac and Olsen, 1993; Zaheer and Venkatraman, 1995). Das and Teng (2001) examine two types of inter-organisational risks in strategic alliances: relational risk and performance risks.

Relational risk is defined as the probability of having unsatisfactory cooperation between the parties involved (Das and Teng, 1996). Relational risks arise because of the potential opportunistic behaviour of either one or both members of the relationship (Das and Teng, 1996). Firms seeking their personal interests are more focused on achieving their individual goals rather than achieving the relational goals. Misalignment on goals and a misappropriation of relational resources are important consequences of relational risks. This behaviour leads to a deviation from achieving common relational benefits

and an orientation towards achieving individualistic and private benefits (Khanna *et al.*, 1998).

The opportunistic behaviour of distributors is mainly driven by their attempt to conceal information pertaining to their sales and distributions costs. Distributors consider that revealing outcomes pertaining to their performances or cost structures might lead to a loss of autonomy (Jensen and Meckling, 1976; Fama and Jensen, 1983), which could potentially expose certain operational weaknesses (Abrahamson and Park, 1994). Divulging uncertain information might motivate the supplier to review the agreed trading terms, thus affecting the level of private benefits that could have been generated from those investments (Abrahamson and Park, 1994).

Even when the relationship between a supplier and a distributor is satisfactory and somehow free from relational risks, the occurrence of performance risks is still probable. Performance risk is defined as the probability that alliance objectives are not achieved (Das and Teng, 1996). In an outsourcing relationship, the party who decides to outsource certain activities expects to achieve specific benefits. According to a comprehensive review conducted by Sanchís-Pedregosa *et al.* (2012), companies that decide to outsource the logistical services expect to achieve specific objectives:

- Focus on primary activity.
- Cost savings.
- Improved flexibility.
- Access to latest techniques and experience.
- Improved customer service.
- Improved return on assets.
- Access to unknown markets.
- Supply chain productivity.
- Supply chain re-engineering.
- Increased inventory turnover.

According to Das and Teng (1996), performance risks occur if the objectives behind outsourcing are not met. If suppliers in the Middle East choose to outsource their sales and distribution operations to distributors to achieve cost optimisations or to transfer some risks and such objectives are not met, then performance risks are bound to occur.

This will lead suppliers to question and further scrutinise the objectives of their alliances with distributors.

Dyadic risks fall into the category of network risks and they arise due to the bilateral dependency of two supply chain members. A supply network is the network of companies that exist upstream of any one company in the value system (Porter, 1985). The structure of a supply chain network can be viewed as the pattern of relationships among firms engaged in creating a sellable product (Choi and Hong, 2002). A network as illustrated in Figure 2.2 (Choi and Krause, 2006) is composed of a focal company (supplier or buyer) and a supply base. A supplier base is the portion of the supply network actively managed by the focal company through contracts and purchasing of parts, materials, and services. The arrows illustrate the direction of influence, coordination and control, and the blue lines represent the relationships among suppliers, whether induced by the focal company or emerging autonomously (Choi and Krause, 2006).

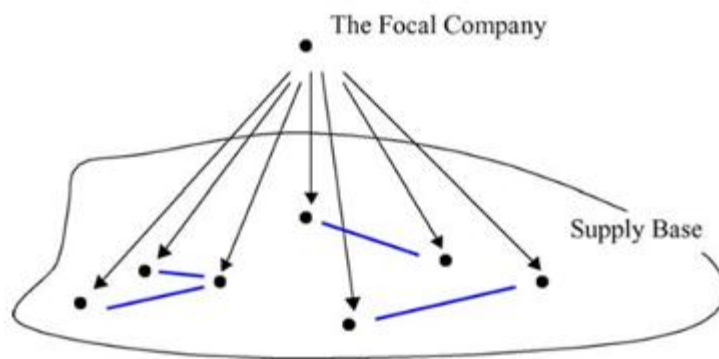


Figure 2.2. Focal company and its supply base

Broader supply networks increase the level of complexity across the supply chain. According to Choi and Krause (2006), supply base complexity is a factor of the number of suppliers in the supply base, the level of supplier interaction, and the degree to which these suppliers vary in terms of organisational culture, size, location, technology, and so forth. The inter-relationship between the focal supplier (or buyer) and the various suppliers in the same network is viewed as a main source of supply chain risk. This risk is explained by the lack of coordination between the different members, the increasing number of interfaces to share information, and the misalignment on strategies and objectives. Supply networks are viewed as complex systems; and the degree of complexity varies with the increasing number of subsystems or with the level of differentiation of varied goals that compete in an organisation (Choi and Hong, 2002).

In two organisations of equal size, the one with the greater number of departments is viewed as more complex. If both organisations have the same number of departments, then the one with more varied goals locally is viewed as more complex (Choi and Hong, 2002). The level of complexity also depends on the sturdiness of the linkage between organisations (supplier/supplier, supplier/buyer) belonging to the same network. Loose linkages, with high degrees of uncertainty, are viewed as more complex than sturdy ones with lower uncertainty levels (Choi and Hong, 2002). The way information is processed and managed determines the sturdiness of the linkage joining the various forms of relationships, whether dyadic, triadic, or other forms of relationships. Complexity thus refers to the applied load that requires coordination; the higher the differentiation and the loose coupling among the elements in the system, the higher the load required to coordinate the system (Choi and Hong, 2002).

Supply base complexity depends on the number of suppliers in the supply base and the level of differentiation and inter-relationships among suppliers. When there are multiple suppliers involved, higher degrees of differentiation, and several inter-relationships among suppliers, the complexity of the supply base is deemed relatively high. Less differentiation, fewer inter-relationships, and/or fewer suppliers result in lower supply base complexity (Choi and Krause, 2006). The impact of supply base complexity on the focal company is conceptualised in Figure 2.3.

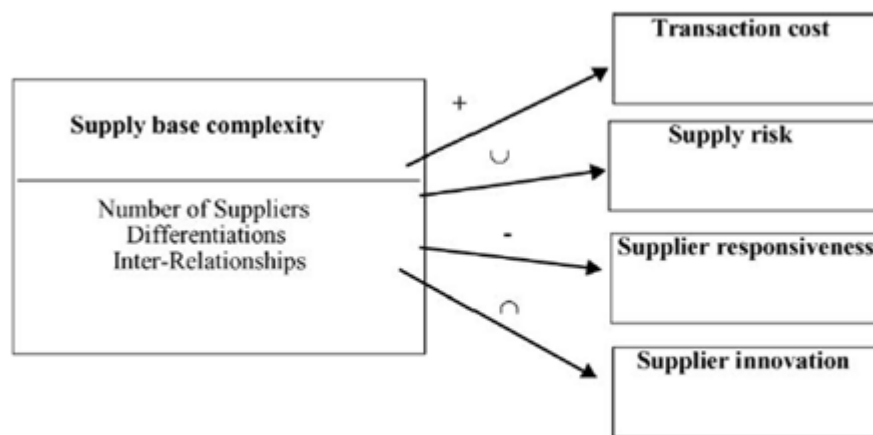


Figure 2.3. Impact of supply base complexity on focal company

Supply base complexity and transaction costs are positively associated with the total transaction costs incurred by the focal company as a result of interacting with the supply base (Choi and Krause, 2006). Broader networks increase transaction costs as

companies are obliged to incur higher costs to coordinate, control, and align with a greater number of suppliers.

Structuring a supply network entails controlling various activities across the network, whether globally throughout the system or locally within a system (Choi and Hong, 2002). Two types of control mechanisms are proposed to reduce the levels of complexities in supply networks: Formalisation and Centralisation.

The research focuses on the dyadic risks affecting FMCG suppliers and their distributors. The network is composed of two dyadic members (a supplier and its downstream buyer: distributor) and is structured as follows:

- Supplier: dyadic risks from the supplier perspective are referred to as buyer base complexity and are associated with the dependency of FMCG suppliers on their distributors.
- Distributor: dyadic risks from the distributor perspective are referred to as supplier base complexity and are associated with the dependency of FMCG distributors on their suppliers.

According to Choi and Krause (2006), the level of complexity in this type of network is assumed to be low as it is composed of two dyadic members, relative to other networks comprising a larger number of suppliers and distributors. The research challenges such an assumption as the loss of control in dyadic relationships may also have substantial consequences on the ability to optimise outcome and behaviour based performance. In a dynamic and growing context, the dependency of one dyadic member on the other might block the latter from improving its performance and adapting its capabilities to the needs of the market.

2.1.3 The notion of control

The deployment of a control mechanism to mitigate inter-organisational risks is a key factor that influences organisational structure. The organisational control issue is viewed as a lack of information flow between organisational members (Ouchi and Maguire, 1975). In this regard, Ouchi (1979) presents three different types of control mechanism:

- Market control mechanism: involves perfect economies where prices are decided by the market. Minimal control is required as information is complete. Projects

that are contracted based on governmental tenders or outsourcing deals are examples of the market control mechanism.

- Bureaucracy control mechanism: involves personal surveillance and direction from subordinates through a predefined set of rules. The bureaucratic mechanism requires administrative controlling resources, as the behavioural rules are expressed qualitatively. This mechanism is common to all forms of hierarchal structure where organisational layers are added to reduce information gaps.
- Clan control mechanism: involves the creation of shared values and beliefs in order to build internal commitments congruent with the objectives of the organisation. A socialisation process that incorporates properties that are unique to the organisation is thus created. This process is referred to as a clan, where costly forms of auditing and surveillance can be avoided.

The choice of control system is influenced by what is expected to be controlled by the organisation. A differentiation is found in the literature between the control of outcome based variables and the control of behavioural based variables.

Outcome based variables are quantitative and can be controlled easily as the supplier can rely on measurable reference values, such as sales revenues, costs, and stock levels (Churchill *et al.*, 1985). These variables give an indication of overall firm performance and may serve when monitoring alliance objectives. By controlling these variables, the supplier can track whether outsourcing objectives are met and can mitigate the associated risks accordingly.

Distributors who sense that they are only controlled based on outcome based measures might concentrate their efforts solely on actions that maximise their outcome levels. This might lead to negative consequences such as overstocking situations, liquidations, and the failure of new product launches. Weitz (1981) and John and Weitz (1984) find that outcome based control systems are skewed towards the objectives of the salesperson, which does not always conform to the objectives of the firm.

Outcome based variables focus on the objectives that need to be achieved (outcome) rather than the actions required to achieve (behaviour) such objectives. Behaviour

control might lead to better outcome, especially regarding the control of the sales and distribution activities.

A behaviour based control system addresses the process of selling rather than simply the outcome (Anderson and Olivier, 1987). From a behavioural perspective, spending time and effort on setting the forecast and planning the sales drives the quantities expected to be sold. The unit of measurement is not the dollar value but the sum of the inputs that positively influence the achievement of the dollar value. Sales process definition, job design, intrinsic motivation, and relationship developments are considered to be key advantages of behaviour based mechanisms (Eisenhardt, 1988; Ouchi, 1979; Weitz, 1981; Anderson and Olivier, 1994). The following example given by Alchian and Demstet (1972: 4) illustrates the complexity derived from behaviour based control mechanisms in outputs that significantly depend on collective team work:

“When lifting a cargo, how rapidly does a man move to the next piece, how many cigarette breaks does he take? (...) With team production it is difficult, solely by observing total output, to either define or determine each individual's contribution to this output” (Alchian and Demstet, 1972: 4).

Questions addressed by behavioural based control systems include: how should tasks be evaluated, how long it takes for the task to be executed, what are the external variables that influence task performance, how effective is the execution of the task, how to measure effectiveness, and how to drive and measure customer satisfaction.

Deploying a control system does not necessarily imply that the party to be controlled will comply entirely. For this reason, the literature emphasises the reaction of the dyadic member who is subject to the control system. Kelman (1958) presents this reaction based on three influence processes. The compliance process occurs when an individual accepts influence in order to achieve a favourable reaction from another person in the group. Such behaviour is not based on belief or values, but on the expectation of gaining specific rewards and avoiding specific punishments. The satisfaction derived from compliance is due to the social effect of accepting influence. The second process examined by Kelman (1958) is the identification process which occurs when the dyadic member accepts influence because of a positive intention to establish or maintain a

satisfying self-defining relationship with the other dyadic member. The satisfaction derived from identification is due to the act of conforming. The third process presented by Kelman (1958) is internalisation, which occurs when an individual accepts influence because the content of the induced behaviour (the ideas and actions of which it is composed) is intrinsically rewarding. The induced behaviour is adopted because it is congruent with the organisational value system. The satisfaction derived from internalisation is due to the content of the new behaviour.

The control of one channel member over the other across the supply chain can either take the form of tyranny, where one channel member insists on compliance from another, or the form of benevolent leadership, where the most powerful member manages the channel to enhance its overall performance (Stern, 1967).

The choice of risk mitigation strategy is affected by what is expected to be controlled and by the reaction of the member who is expected to be controlled. If inter-organisational risks are caused by the inability to control outcome based performance, then a system to control measurable objectives is sufficient. However, if such risks are due to the inability to control behavioural based variables, then more advanced control systems are required. The theoretical avenues that are relevant to understand the risk mitigation strategies applicable to the issues raised by the research should conform to the following principles:

- Core assumptions: the selected theories should acknowledge the existence of inter-organisational risks and treat them as founding assumptions, and as natural phenomena that are bound to occur in any form of seller buyer relationships, strategic alliances, or outsourcing relationships.
- Theoretical propositions: the theories have to provide clear direction on how inter-organisational risks are mitigated. Mitigation strategies include controlling inter-organisational risks by minimizing the probability of their occurrence (or elimination) by reviewing the structure of the relationship.
- Contextual flexibility: the propositions raised by the theories have to be flexible depending on what is expected to be controlled. The fact that outcome based control systems might be sufficient in one context, but not so in another, emphasises the importance of the relationship between the environmental context and the strategy.

- Unit of analysis: the theories have to cover the dyadic relationship, looking at inter-organisational risks from the angle of the supplier and the distributor.

The agency and TCE theories were selected because they meet the theoretical criteria set for this research and are therefore used to explain the risks arising from loss of control situations in inter-organisational relationships.

The assumptions of opportunism, bounded rationality, and uncertainty proposed by both theories are relevant to explain inter-organisational risks between FMCG suppliers and distributors in the Middle East. This has broadened the applicability of both theories in several domains in the literature. However, in a context where long term relationships are of strategic necessity, both theories lack the required relational dimensions.

Transaction Cost Economics (TCE) theory examines the organisation of transaction whenever a good or a service is transferred across supply chain members. TCE considers the transaction as the basic unit of analysis; the theory is mainly concerned with the different governance structures that arise following different transaction attributes (Williamson, 1975; 1985). TCE theory suggests the alteration of the governance structure by reducing or eliminating the number of intermediaries in the supply chain, while the AT focuses on resolving these problems through formal contracting. Both theories have been used, either independently or in conjunction with other theories, to explain the issues that arise between different members across the supply chain. Eisenhardt (1985; 1989) found that the agency theory and the organisational and institutional theories lead to the same results. Heide and John (1988) combine TCE with the dependency theory, while Gil and Hartmann (2009) use TCE with the network analysis theory. Logan (2000) explains resource integration decisions by combining TCE with the resource based view approach.

The contemporary literature that explores TCE and the AT show that authors who relied on both theories to explore supply chain issues focus their attention on the classical assumptions as originally defined by the theories. A summary of this literature is presented in Table 2.2.

The Authors	Issues	Methodology	Activities	Findings	Middle East Countries	Evolution	Collaboration and Trust	Outsource of Sales and Distribution Activities
Ahmad and Daghfous, (2010)	knowledge network	In-depth interviews (13)	Service companies (Hospital, Insurance, Hotel) and Family business groups	Concept of KM is still not well received in the companies interviewed. It is viewed as a capital-intensive investment that requires more than just the availability of human capital and the requisite infrastructure. The companies do not show significant interest and focus on implementing new techniques or methods to create and generate new knowledge.	Yes	No	No	No
Craighead et al.(2007)	Supply chain disruption	Case study	Auto manufacturer	Six propositions are derived explaining the severity of supply chain disruptions. The authors show how vulnerable a supply chain is to disruption risks, and what can be done to mitigate them.	No	No	No	No
Dekker (2013)	Transaction specific risks exposure in supply chain	Survey	Japanese manufacturing firms	The study provides empirical evidence on the use of management control practices in the context of SCM by Japanese manufacturing firms. The authors finds that Japanese firms have the choice to collaborate with trusted supply chain partners and to use of multiple interrelated SCM practices to cope with transaction specific risks.	No	No	Yes	No
Ellegaard (2008)	Supply Chain risk in small companies	Case study	Suppliers	The study demonstrates that supply risk mitigation methods such as market intelligence, e-business, supplier development, contracting, holding reserves, and multi-sourcing are simply too resource and time consuming for the small company owner. Local sourcing, source loyalty, knowledge protection, and focus on fair, dependable, similar, and responsive suppliers formed the essence of these companies' supply risk management approach.	No	No	Yes	No
Ellis et al. (2010)	Supply chain disruption	Survey	Purchasing manager (buyers direct material)	The study shows that both the probability and the magnitude of supply disruption are important to buyers' overall perceptions of supply disruption risk. The authors also find that product and market situational factors impact perceptions of risk and decisions are based on assessments of overall risk.	No	No	No	No
Faisal et al.(2006)	Supply chain risk	Modeling	Indian manufacturing SME	The authors find that the following enablers play a key role to counter risks in a supply chain: trust, collaborative relationships, information sharing and knowledge about risks. This classification provides a useful tool to supply chain managers and help them to focus on the enablers that are most important for effective risk minimization in a supply chain.	No	No	Yes	No
Finch (2004)	Partnering risks between large enterprises and SMEs	Case study	Information System SME partner	Show that IS SMEs are affected by their alliance with large companies. By adopting strategies to mitigate these risks SMEs can improve the chance of long term survival.	No	No	Yes	No
Harland et al.(2003)	Complex dynamic supply networks	Case study	Manufacturer (Electronics sector)	Develop and test a supply network risk tool to increase the visibility of risk that actors in a network are or might be potentially exposed to and to help in the assessment and management of that risk. The tool also helps in the provisioning of categorizations of types of risks and losses.	No	No	Yes	No
Hezarkhani and Kubiak (2010)	Contract coordination across supply chain	Modeling	Different tiers topologies	Highlight the key concepts, assumptions and methods to coordinate contracts in the supply chain.	No	No	No	No
Jacobs and Hall (2007)	Integration of port actors into global supply chains	Case study	Dubai Port	The theoretical contribution of this study lies in identifying the place specific and path dependent physical, institutional, and political factors that underlie the territorial embeddedness which enable or constrain the supply chain related strategies of port actors.	Yes	No	No	No
Jraisat et al.(2013)	Information sharing in export supply chain	Case study	Jordan (producers and exporters)	The study highlights specific transaction, relationship and network drivers of information sharing in the export supply chain. Trust is perceived to be part of the commitment relationship driver and the absence of formal contracts also seems to create possible opportunistic behavior in the examined agri-food ESC and, in turn, this drives information sharing.	Yes	No	Yes	No

Table 2.2. Transaction Cost Economics in Contemporary Supply Chain Literature (1/2)

The Authors	Issues	Methodology	Activities	Findings	Middle East Countries	Evolution	Collaboration and Trust	Outsource of Sales and Distribution Activities
Kern et al.(2012)	Supply chain risk issues	Mail survey	Manufacturing	Authors propose a model for upstream supply chain risk management linking risk identification, risk assessment and risk mitigation to risk performance. The model also includes the effect of a continuous improvement process on identification, assessment, and mitigation.	No	No	No	No
Laequddin et al.(2012)	Supply chain risk	Review of different trust building models	Supply chain partners	The research shows that trust and risk are interlinked and trust cannot be built as one-dimensional phenomenon. Present an integrated conceptual model that suggests that, simple evaluation of supply chain member's risks from characteristics, rationale and institutional control/ security perspectives and bringing them to within the bearable limits can lead to trust building.	No	No	Yes	No
Lambert and Cooper (2000)	Issues in supply chain	Case study	15 companies covering 9 different supply chains	The authors show that the successful integration and management of key business processes across members of the supply chain will determine the ultimate success of the single enterprise. Supply chain management involves the following interrelated elements: - The supply chain network structure. - The supply chain business processes. - The management components.	No	No	Yes	No
Leavy (2004)	Outsourcing risk	Case study	Manufacturer: (Nike and Dell, Nokia and Nortel Ikea, Canon,IBM) and Airline (Ryanair)	The authors find that outsourcing increases certain strategic risks such as losing skills key to compete for the future and the risk of making the outsourcing move at the least suitable time in an industry's evolution.	No	Yes	No	No
Norman and Jansson (2004)	Supply chain risk	Case study	Manufacturer: Ericsson	This study stress on the "supply chain approach" in SCRM as a complement to more purchasing oriented studies, and to give a quite detailed description of how SCRM could work in practice. The study shows that risk management actions must be evaluated from a logistics perspective focusing on cost, time, quality, agility.	No	No	Yes	No
Nyaga et al.(2009)	Benefits of collaborative relationships	Survey: Sample 1: Buying firms (370) Sample 2: Supplier firms (290)	U.S Manufacturing and Service industries	Propose a model that highlights that buyers and suppliers have perspectives that are generally more similar than they are different when it comes to collaborative relationships. Results show that collaborative activities, such as information sharing, joint relationship effort, and dedicated investments lead to trust and commitment. Trust and commitment, in turn, lead to improved satisfaction and performance.	No	No	Yes	No
Ojalaa and Hallikas (2004)	Investment decision-making risks in buyer-dominating supplier	Case study	Electronic and Metal sectors	The study provides insights on investment decision-making under uncertainty and risk in supply networks. Open information sharing, mutual dependence, and trust are important in helping to reduce uncertainty in investment decisions.	No	No	Yes	No
Ritchie and Brindley (2007)	Supply chain risk	Case study	Multinational manufacturer (agricultural equipment) Contractor	The paper develops a framework that explores the interaction between risk and performance in a supply chain context.The framework helps in integrating the dimensions of risk and performance in supply chains and provide a categorization of the risk drivers.	No	No	Yes	No
Wever et al.(2012)	Supply and demand side risks	Modeling	Three different supply chain models	Develop different supply chain wide TCE models that show that when supply chain actors follow the recommendations from the traditional TCE model regarding the use of contracts, it may increase rather than decrease their exposure to transaction risks. A main difference of the new model is that it recognizes the interdependence between supply chain transactions unlike the traditional TCE model.	No	No	No	No

Table 2.2. Transaction Cost Economics in Contemporary Supply Chain Literature (2/2)

Ding *et al.* (2013) discuss how TCE characteristics (asset specificity, environmental uncertainty, and frequency) generate transaction risks that engender a need for control. The authors used the basic TCE assumption, as defined by Williamson (1985), to explore their hypotheses. Bourlakis and Melawar (2011) also referred to the traditional transaction cost paradigm to explore the factors that affect the outsourcing of the logistical functions. The authors relied on the classical transaction cost literature starting with the early work of Coase (1937) and extending to the developed work of Williamson (1975; 1985). Blome and Schoenherr (2011) also adopted the traditional TCE model to understand how companies manage supply chain risks in financial crisis situation.

Another strand of contemporary literature focuses on extending the traditional TCE and agency theories. Wever *et al.* (2012) present different models that challenge the traditional TCE model regarding the use of contracts. The authors show that the solution presented by TCE may increase rather than decrease the exposure of supply chain members to risks and propose an extension to the traditional transactional approach. Other authors recommend the integration of the relational perspective to both the TCE and AT (Raised *et al.*, 2012; Fayezi *et al.*, 2012).

Most of the contemporary studies presented in Table 2.2, used the classical assumptions defined by the originating authors of TCE and the AT to explore supply chain issues. These theories have been extensively used as traditional theoretical foundations in the field of distribution and logistics (Bourlakis and Bourlakis, 2005; Kamman and Van Nieulande, 2010). Table 2.2 also shows that there is a scarcity of research exploring the classical TCE and AT perspectives in the Middle East. There is also an opportunity to integrate both the evolutionary and the relational approaches to the classical transactional perspectives thus contributing to existing contemporary literature.

Given these points of view, it is clear that the current research would not benefit from adopting the interpretations of contemporary studies to examine the risks affecting suppliers and distributors in the Middle East. Instead, the appropriation of the classical approach is germane to the establishment of a solid theoretical base for this research. The research refers to contemporary literature to propose the extension of the classical

transaction approach. To have a better understanding of the risk mitigation strategies in the Middle East, attention is paid to both the evolutionary and relational perspectives,

The traditional literature associated with the agency and TCE theories is examined to understand the dyadic risks affecting suppliers and distributors in the Middle East. The exploration of the literature shows that the strategies proposed by both theories need to be complemented by other theoretical perspectives, given the role that trust may play in the Middle East and the dynamic nature of the contexts where the research is taking place.

The following section first examines the classical literature associated with the agency and TCE theories, and then explains why both theories have been chosen to understand the inter-organisational risks affecting suppliers and distributors in the Middle East. The exploration of the literature shows that the strategies proposed by both theories need to be complemented by other theoretical perspectives, given the role that trust may play in the Middle East and the dynamic nature of the contexts where the research is taking place.

2.2 Overview of Agency Theory

Alchian and Demstet (1972), Ross (1973), Jensen and Meckling (1976) and Fama and Jensen (1983) are considered to be the originating authors of the agency theory. The key concepts examined by the agency theory are rooted in the theory of the firm. The rise of the firm, as noted by Coase (1937), is based on one member who is given the power of directing another member's work, and the other member accepts this direction in return for specific guarantees. The result of the diverse specialisation of functions is the enterprise and wage system of the industry and its existence in the world is the direct result of uncertainty (Coase, 1937). Coase's (1937) theory of the firm incorporates the key phenomena that gave birth to TCE and the agency theories. Some of these phenomena are internal to the firm, such as the conditional relationship between two entities whereby a fee is paid in return for the completion of a specific task, while others are external to the firm and are either related to the uncertain nature of the world, or to the uncertain nature of human beings. The agency theory is concerned with the problem

that arises under specific assumptions that are related to the opportunistic nature of human behaviour.

Ross (1973), one of the originating authors of agency theory, considers the agency relationship to be one of the oldest in social interaction.

“The relationship arises between two or more parties where one party, designated as the agent, acts for or on behalf of or as a representative for the other party, designated the supplier, in a particular domain of decision problems” (Ross, 1973: 134).

Jensen and Meckling (1976) introduce the contractual dimension to the agency theory by defining the agency relationship as a contract under which the supplier engages the agent to perform specific services on his behalf. The contractual engagement includes delegating specific decision-making authority to the agent, who is bound to act in his own interest if both parties are utility maximizers (Jensen and Meckling, 1976). The above definition incorporates the key concepts based on which an agency problem arises and applies. Two dimensions that are core to the agency theory are inferred from Jensen and Meckling’s (1976) definition:

- Contracting dimension: task and decision making delegation.
- Behavioural dimension: utility maximisation and self-interest.

Fama and Jensen (1983) focus their examination on the contracting, costing, and controlling dimensions. Agency costs include the costs of structuring, monitoring, and bonding a set of contracts among agents with conflicting interests.

“Agency costs also include the value of output lost because the cost of the full enforcement of a contract exceeds its benefits” (Fama and Jensen, 1983: 304).

Figure 2.4 below illustrates the relationship between a principal (P) (supplier in the research), and an agent (A) (Distributor in the research). The principal delegates or outsources a task, which is the produced outcome (T), to the agent in exchange for a fee (F). The fee (F) is the amount paid to the distributor in exchange for the task rendered to the principal (Ross, 1973). The task generally falls within the agent’s area of expertise (Ross, 1973; Jensen and Meckling, 1976).

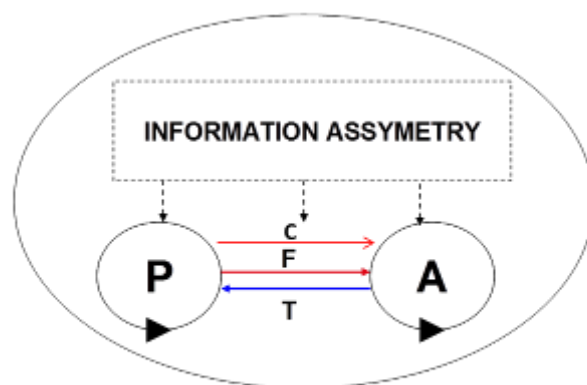


Figure 2.4. Representation of Agency Theory Scope

Two types of information asymmetry are common to the agency relationship. The first type refers to the macro uncertainty that affects principals (suppliers) and agents (distributors), defined by Ross (1973) as the random state of nature. Examples include economic volatilities, insecurity situations, and competitive actions. The second type of information asymmetry is internal and relates to the opportunistic factors that result from the agent's shirking behaviour (Alchian and Demstet, 1972). Only the principal is affected by this information asymmetry and thus incurs monitoring costs (C) to mitigate its impact. Examples of monitoring costs include investments in information systems and structures. The total cost incurred by the agent is a sum of the fee (F), which covers the cost of executing the service, and the cost (C), which covers the cost of controlling the execution of the service. Jensen and Meckling (1976) define the agency cost as a sum of four types of costs:

- Incentive costs: incurred to motivate the agent. The incentive theory of the firm focuses on the role of incentives in managing uncertainties (Berhold, 1971; Clark and Wilson, 1961).
- Monitoring costs: designed to limit the agent's shirking behaviour by imposing controlling norms, such as rules and regulations. Monitoring can also take the form of the exercise of power. Coercive enforcement entails the use of punishment, such as budget restrictions, and non-coercive enforcement entails the use of assistance and rewards.
- Bonding costs: referred to as safeguard costs by the TCE theory (Williamson, 1975; 1979; 1981), are designed to guarantee that the agent will not take actions

harmful to the principal and to ensure that the principal is compensated should such actions take place.

- Residual costs: termed the costs of opportunism or opportunity costs, represent the reduction in the principal's welfare due to a highly probable divergence between the agent's decision and the decision that maximises the welfare of the principal.

The assumption that suppliers and agents will maximise their utility functions is presented by the circling black arrows in Figure 2.4, where each member strives to fulfil his own benefit. An example of the principal's utility maximisation is when the supplier asks for additional tasks (T) for the same amount of fee (F) paid. The agency theory assumes that suppliers are risk neutral as they are able to diversify the impact of uncertainties across several utility functions (Jensen and Meckling, 1976; Fama and Jensen, 1983; Eisenhardt, 1989; Wiseman and Gomez-Mejia, 1998). The agent can conceal some information pertaining to task implementation from the principal, and might also consider a number of optimisation actions by incurring fewer tasks or by investing less resources for the given fee (F), thus benefiting from the complexity that surrounds the control of behaviour to optimise his utility function. Agents are assumed to be risk averse as their risk diversification capability is limited (Jensen and Meckling, 1976; Fama and Jensen, 1983; Eisenhardt, 1989; Wiseman and Gomez-Mejia, 1998).

Ross (1973) proposes that the supplier chooses a fee that maximises his expected utility taking into account the constraints raised by the agent and assuming that the latter will act in the supplier's best interest. Although this is an ideal situation as it assumes that the supplier has full visibility over the behaviour of the agent, it contradicts the assumption of imperfect economies (Alchian and Demstet, 1972).

To conclude, the agency theory is concerned with any relationship that involves the delegation of services between individuals or organisations. The entity who delegates (supplier) is assumed to be risk neutral and the entity that is expected to execute the service (agent) is assumed to be risk averse (Eisenhardt, 1985). The agency fee paid includes the cost of the service, the cost of controlling the service, and the provision for residual losses that affect the supplier's welfare. The following section covers the details of each of the assumptions proposed by the agency theory.

2.2.1 Agency theory assumptions

The agency theory aims at determining how information asymmetry influences the relationship between a supplier and an agent based on variations in the tasks assigned to the agent and the fee paid by the supplier. Agency costs integrate the cost of monitoring tasks and the opportunity costs resulting from the inability to monitor certain tasks. To better understand the agency theory, the research further examines the assumptions considered key in influencing optimal contracting in a supplier agent relationship. The agency theory is examined in a context of authority delegation where the task is delegated from a supplier to an agent in exchange for a specified fee. Such a context is subject to information asymmetry, which is representative of imperfect economies. The theory deals with the impact of this assumption on the supplier-agent relationship. An agency problem thus occurs when the welfare of the supplier is not maximised because the supplier and the agent tend to have different goals and divergent predispositions towards risk (Eisenhardt, 1989; Wiseman and Gomez-Mejia, 1998)

The previous section covered the scope of the agency theory. Referring to Figure 2.5, the impact of information asymmetry is depicted in the black arrow (self-interest behaviour of P and A) and is mainly due to a lack of control over the fee (F) paid by the supplier for services expected in return for this fee. The following section covers the details of the information asymmetry assumption.

Two types of information asymmetry are noted by the agency theory literature: moral hazard and adverse selection (Akerlof, 1970; Demiski and Feltham, 1978; Holmstrom, 1979; Eisenhardt, 1988; 1989). A moral hazard situation arises when either the supplier or the agent is motivated to take actions beyond those specified in the contract (Akerlof 1970; Demiski and Feltham, 1978; Holmstrom, 1979). Adverse selection is the condition under which the supplier cannot ascertain if the agent accurately represents his ability to do the work for the rewarded fee (Akerlof, 1970). Information asymmetry through moral hazard occurs in the post contract phases, while adverse selection occurs in the pre-contract phase.

An imperfect and incomplete economy is considered to be the source of information asymmetry (Alchian and Demstet, 1972) affecting all institutions operating in the same environment. Institutional theorists relate information asymmetry to institutional

environmental factors that influence decisions pertaining to the separation of ownership (Alchian and Demstet, 1972; Jensen and Meckling, 1976; Williamson, 1975). The incentive to shirk, resulting from the limited information available before and after the contract, is a main consequence of moral hazard and adverse selection. This is applicable in labour and organisational contracting, accounting, insurance and any kind of delegation of decision making or separation of ownership (Holmstrom, 1979; Akerlof, 1970).

Akerlof (1970) proposes that when the agent's skills are not observable, the supplier might employ agents with lower skills who falsely claim to have the required skill level. The lack of information at the hiring stage is a common adverse selection issue that depends on the risk position of the supplier (neutral or averse), the wage/incentive that the supplier is willing to pay, the service required in return for this incentive, and the ability to acquire basic information with regard to the performance of the agent. The act of hiring an agent is thus perceived as an investment under uncertainty. The supplier is not aware of the agent's skills and capabilities and is consequently enduring a risky investment, where he is paying a fee (F) without having sufficient information regarding the agent's capability/knowledge to execute the required task. The hiring phase is emphasised to highlight the occurrence of the supplier agent problem before the parties enter into the relationship. Spence and Zeckhauser (1971) classify the information at the hiring stage into observable and non-observable information:

- Observable information: or indices as referred to by Spence and Zeckhauser (1971), constitutes personal information, references, and reputation that is available to the supplier and cannot be manipulated by the agent.
- Unobservable information: termed signals by Spence and Zeckhauser (1971), constitutes information observable solely by the agent that cannot be accessed by the supplier. Since the agent holds this information, he has the ability to manipulate it and alter it as needed.

The model proposed by Spence and Zeckhauser (1971) has significant implications for the understanding of the agency theory assumptions. Spence and Zeckhauser (1971) suggest that hiring is a learning process whereby, over time, the supplier gains information pertaining to the agent based on previous experience and actual productivity levels. Investment in education is an example; workers invest in education

as they expect a higher return for the information acquired. Distribution companies invest in infrastructure and expect a higher fee to be earned in return. The agent is hired by the supplier based on indices within a context of uncertainty. Information is gained by the supplier based on the observation of the relationship between marginal product and signals. At this point, some of the uncertainty elements pertaining to the signals of the agent are uncovered. Is the agent making use of his education at work? Is the distributor fully utilising the assets of the agent based on market requirements? This step should also include an evaluation of the services of the agent. The probabilistic belief of the supplier is built based on acquiring part of the unobservable information. According to Spence and Zeckhauser (1971) this belief is adjusted in relation to the new entrants to the market with different skill levels that are uncovered based on the relationship between marginal product and signals at a given point in time (Figure 2.5).

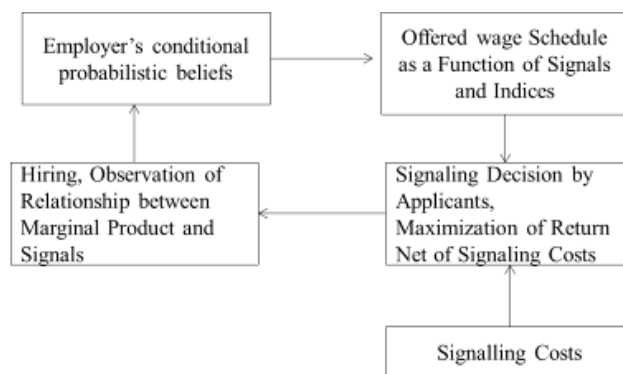


Figure 2.5. Informational Feedback in the Job Market

Skilled workers have the incentive to provide costly information, or information about signals that differentiates them from other skills in the market. However, this does not remove the probability of falsifying information. In the insurance industry, agents can mask some of the information they hold in order to achieve a better premium (Akerlof, 1970; Holmstrom, 1979).

Adverse selection and moral hazard issues are two forms of asymmetrical information. The agency problem caused by these issues has contractual implications pertaining to the control of behaviour and outcome. Both issues are considered as two faces of the same coin; adverse selection is caused by information asymmetry prior to the contract, whereas moral hazard is related to information asymmetry after the contract phase

(Eisenhardt, 1989). The problem of information asymmetry negatively influences the supplier agent relationship and may also lead to market failure (Akerlof, 1970).

A loss of control situation defined by information asymmetry is regarded as a factual risk affecting organisations. The key questions that concern agency theorists are how to avoid market failure resulting from information asymmetry.

- How can the impact of environmental uncertainty or a random state of nature be minimised?
- How can shirking behaviour be avoided and absorbed, and can opportunism be limited?
- What are the strategies provided by the agency theory to mitigate inter-organisational risks?

The next section presents the different alternatives proposed by the agency theory to mitigate inter-organisational risks.

2.2.2 Risk mitigation: agency theory perspective

Demski and Feltham (1978) examined two cases of information asymmetry: a partial case where it is too costly for the supplier (owner) to observe the efforts of the agent (worker), and a complete case where the supplier does not have full information about the behaviour of the agent. In either case, the agent takes the information asymmetry as an occasion to act opportunistically. Three sets of contracting propositions are proposed by the theory to mitigate the risk of shirking behaviour (Demski and Feltham, 1978):

- Rental contract: assumes that the supplier is incurring a fee independent from the performance of the agent and is therefore indifferent to the efforts extended by the latter. The agent is oriented to maximise his efforts in order to optimise the fee earned. The agent assumes all the risk, which will be partially offset by insurance coverage. A complete insurance coverage cannot be obtained where significant levels of uncertainty exist (Spence and Zeckhauser, 1971). The rental contract is mostly concerned with discrete transactions, where the performance of the supplier is not correlated or affected by the performance of the agent. The

relationship is restricted to agreeing on the relevant fee and the period mentioned in the rental contract.

- Mixed contract: assumes that the supplier pays the agent a lower rental fee in exchange for sharing the output. In this case, the supplier is risk neutral and the agent is induced to work more in order to maximise his return, taking into account that he is risk averse.
- Budget based contract: is defined by a fixed wage and a behaviour based bonus scheme. The supplier pays the agent a fixed wage when the outcome achieved exceeds a predetermined standard. However, if the outcome is below this standard, then the mixed contract applies. A budget based contract induces the agent to exert more efforts, while assuming lower levels risks.

In the Middle East, the two most common types of formal contract between suppliers and distributors are fixed price contracts and cost plus contracts.

A fixed-price contract is a contract where the payment made to the distributor is independent of the costs and resources deployed to implement the contract (Templin, 1988). Suppliers following a fixed price contract oblige distributors to deliver the products to retailers at a predetermined price. The supplier usually fixes the distributor's margin based on market benchmarks as protection from cost inflation risks in the local market. Any increase in the costs associated with the sales and distribution operation is thus absorbed by the distributor. Fixed price contracts do not completely shield suppliers from costs associated with the evolution of retail, since promotion and visibility costs are sustained by the supplier. The agency theory assumes that these costs are subject to adverse selection and moral hazard. Adverse selection is related to knowing the exact costs of performing the transaction, and moral hazard is associated with monitoring these costs. Fixed price contracts are most effective when the transaction is not complex. Bajari and Tadelis (2001) explored the effects of complexity on contractual choice and found that fixed-price contracts provide good ex ante cost incentives but impose high friction when ex post adaptations are required. Incentives are not the only means to drive performance, but can be used strategically to balance private and relational benefits (Burleson and Wilson, 2007).

Fixed price incentive fee contracts specify a target cost, a target profit, a price ceiling, and a profit adjustment formula. If suppliers have enough information pertaining to the transaction costs of distributors, they can use this information to negotiate a price ceiling paid to distributors against specific performance targets. The agency theory assumes that distributors will tend to conceal this type of information from suppliers. To avoid such a situation, suppliers can either include an information sharing clause in the contract to control adverse selection, or deploy dedicated resources to monitor information and control moral hazard. The agency theory accepts that information is a commodity that is purchased (Eisenhardt, 1989). The effective performance of fixed price contracts depends on both the willingness of the supplier to incur additional costs to acquire and monitor information, and on the incentive structure adopted.

Fixed price incentive fee contracts are effective when suppliers have full visibility over their sales and distribution costs. When distributors are efficiently encouraged to provide such information, fixed price incentive fee contracts might mitigate relational risks. Suppliers and distributors have to agree on an incentive structure that secures their private benefits while considering the relational benefits at the same time. Fixed price incentive fee contracts address neither market risks nor risks associated with environmental factors that are beyond the control of suppliers and distributors. Fixed price with economic price adjustment contracts adjust the price as a response to market volatilities.

Suppliers following a fixed price contract should incorporate specific incentives associated with growth acceleration and transaction cost optimisation. These incentives are expected to curb the distributor's opportunism when they consider the mutual interest of suppliers and distributors. The willingness of the agent to share performance based information is a prerequisite for an effective incentive structure. Even if the distributor does not share such information, a fixed price contract transfers all the risk to the distributor and is considered to be substantially effective.

Fixed price contracts are considered effective in market-like transactions that involve low levels of complexity (Crocker and Reynolds, 1993; Templin, 1988; Goldberg and Erickson, 1987). According to Crocker and Reynolds (1993), they are considered

complete contracts when they incorporate specific incentives that adjust to uncertainties in terms of costs and market volatilities.

As noted by Goldberg (1977), a major disadvantage of fixed price contracts is their inability to provide cost based information. Cost plus contracts or cost reimbursement contracts are contracts whereby the supplier reimburses the agent for costs incurred to perform the transaction and incurs additional fees representing the agent's profits (Bajari and Tadelis, 2001). The main challenge associated with a cost reimbursement contract is the ability to identify the minimal agency cost required to perform the transaction, which requires sharing of transaction cost based information. Cost plus contracts can, however, reduce the gap of cost control caused by fixed price contracting.

Successful application of cost reimbursable contracts should consider the supplier agent problem in the pre and post contracting phases. In the pre-contracting phase, distributors might inflate their operation costs. When suppliers lack access to basic information allowing them to evaluate the cost competitiveness of distributors, they have no choice but to assume the soundness of the costs presented to them. In the post contracting phase, distributors benefit from the suppliers' inability to closely monitor their behaviour and tend to shirk by incurring an actual cost that is less than the committed cost. Agents generally tend to resist cost reimbursable contracts to avoid exposing themselves to operational audits from suppliers. Suppliers, on the other hand, want to ensure they are receiving the required services for the costs incurred. This entails comparing distributor costs to other alternatives in the market and estimating what percentage of the cost is fully dedicated to the supplier's operations. From an agent perspective, such information might lead to contract renegotiation, which in turn might trigger the supplier to reduce the initial committed costs to the actual costs incurred, thus transferring all the associated risks to the distributor.

A major challenge facing cost plus contracts is identifying the benefits realised by the supplier from those realised by the distributor, which might hinder the general implementation of cost plus contracts in a context like the Middle East. Special cases might exist, however, particularly in modern trade markets where costs are expected to increase and where monitoring the behaviour of the distributor is difficult. Outcome based compensation may not be sufficient to monitor the distributor's behaviour.

Eisenhardt (1988) associates the compensation mechanism with task programmability; when tasks are not programmable, outcome based compensation is generally more effective due to the difficulty in observing the behaviour associated with these tasks.

Suppliers and distributors should spend sufficient time in the pre-contracting phase to analyse the downstream transaction cost components, allowing them to adapt the contracts to task complexity, looking at various ways to resolve possible costing pitfalls before contract implementation (Sweet, 1994). Bajari and Tadelis (2001) show that cost plus contracts accommodate ex post adaptation better than fixed price contracts, but lack ex-ante cost incentives. The authors conclude that fixed price contracts perform well in non-complex tasks with few anticipated changes, whereas cost plus contracts are better suited for more complex transactions where many changes are anticipated. Performance based conditions can be incorporated in cost reimbursable contracts to account for ex-ante and ex-post contract adaption risks.

Cost plus incentive fee contracts are contracts that entail awarding the distributor a higher profit fee when performance targets are overachieved or when the actual cost incurred is less than the committed cost. Cost plus incentive fee contracts are directly associated with outcome based performance, but do not take behaviour based performance into account.

Behaviour based incentives are more effective than outcome based incentives as they drive the salesperson's intrinsic motivation (Anderson and Olivier, 1994) and positively influence his identification and commitment to the sales organisation (Anderson and Olivier, 1987). Although salespersons are oriented towards financial rewards (Darmon and Rouzie, 1991), suppliers find it optimal to use non-financial incentives to mitigate dyadic risks. Some authors find that non-financial incentives have a minimal impact on sales performance (Piercy *et al.*, 2004), whilst others note the opposite (Kuster and Canale, 2011; Baldauf *et al.*, 2003). Outcome based incentives are objective and based on quantifiable measures such as sales value, profit share, and investment share. They are preferred over behaviour based compensation when measuring and observing behaviour based performance is difficult (Anderson and Olivier, 1987; Eisenhardt, 1988).

There is strong evidence about the impact of behaviour based compensation on performance. Sharma and Sarel (1995) found that compensation systems based on customer satisfaction increase the customer service response of salespeople when compared to salespeople whose incentives are based on turnover. To specifically address behaviour based performance, cost plus award fee contracts have been introduced. An award fee is paid to account for the distributor's sales force behaviour. This award is not based on quantifiable performance metrics, but on qualitative indicators. Cost plus award fee contracts drive the efficiency of the sales team as they aim at driving qualitative performance indicators. Efficient sales teams are able to achieve higher outputs by incurring lower inputs (Sujan *et al.*, 1988). Behavioural incentives can be subjective depending on the supplier's perception. This is why the ability to monitor the distributor's behaviour through direct presence within the distributor's organisation is deemed essential.

Investments in dedicated capabilities to monitor the distributor's behaviour and to engage with his team may influence the implementation of behaviour based contracts. The highest costs incurred are monitoring costs and bonding costs.

Suppliers ought to be vigilant when choosing between fixed and cost plus contracts, as they each have their advantages and disadvantages. Kuster and Canale (2011) found that companies with a compensation system based on fixed salaries use behaviour control more than companies with a compensation system based on commissions. According to John and Weitz (1989), salary is important when team selling is used and when non-selling activities are more important than selling activities in contexts of complex selling situations.

Optimal contracting is achieved when the gains from behaviour control outcomes are balanced with the costs of monitoring (Williamson, 1975; Jensen and Meckling, 1976). In order to reduce the impact of information asymmetry, the agency theory establishes that suppliers should invest in financial incentives to prevent agents from behaving opportunistically. To absorb the risks of outsourcing, two types of costs are additionally incurred by the supplier on top of the fixed fee paid to the agent. The first is the controllable cost, which represents the investment made by the supplier to control the

behaviour of the agent. These investments should encourage distributors to incur actual costs that are equal to the committed costs. The second is the uncontrollable cost, which represents the opportunity cost, or the possibility of agent shirking behaviour. The uncontrollable dimension is related to the availability of alternative agents in the market that are willing to provide the same service at a lower fee, or a better service for the same fee.

2.2.3 Summary of the agency theory

The agency theory assumes that inter-organisational risks are caused by information asymmetry (moral hazard and adverse selection), driving agents to act opportunistically.

Inter-organisational risks have important consequences for the ability of suppliers to control outcome and behaviour based performance. It is more challenging to control behaviour based performance as the measures are unobservable. This may also lead to a misuse of relational resources and the inability to track the way agency costs are being spent. The nature of the tasks and the complexity of the sales operation influence the choice of the control system deployed. According to Eisenhardt (1989), outcome based control systems are sufficient to control programmable tasks like logistics, whereas non-programmable tasks like customer relationship management depend on behavioural competencies and require specific capabilities. Optimal contracting, the alignment on incentives, and the investments in monitoring capabilities are the main dyadic risk mitigation strategies proposed by the agency theory. The research aims at exploring these strategies further in the context of dyadic FMCG relationships in the Middle East. A summary of the agency theory is presented in Figure 2.6.

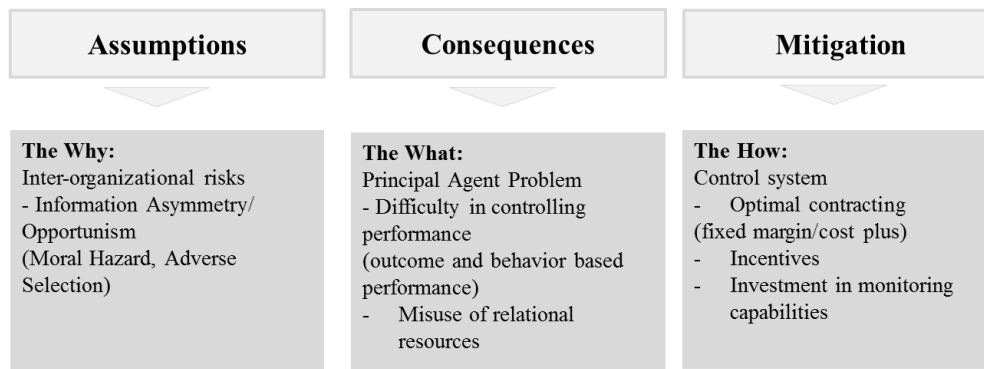


Figure 2.6. Summary of Agency Theory

2.3 Overview of Transaction Cost Economics Theory

TCE theory focuses on the appropriate governance mechanism (vertical integration and market contracting) between supply chain members under the assumptions of opportunism, bounded rationality, and uncertainty. The unit of measurement in TCE is the transaction. The transaction occurs when goods or services are transferred across technologically separable interfaces (Williamson, 1981). A fundamental issue that occupies TCE theorists relates to the factors that influence integrations and outsourcing decisions across the supply chain. Do the parties operate harmoniously, or are there frequent misunderstandings and conflicts that influence performance (Williamson, 1981)?

TCE examines the comparative costs of planning, adapting, and monitoring task completion under alternative governance structures (Williamson, 1981). TCE addresses the following questions:

- What influences the choice of governance structure, and how are governance decisions made?
- What are the various components of transaction costs and how are they influenced?
- How can an optimal governance structure be defined and established?

An essential principle of the TCE theory is the governance of contractual relationships. TCE assumes that governance is not an isolated phenomenon and is influenced by environmental shift parameters and individual behavioural attributes (Williamson, 1975). TCE distinguishes between the institutional environment and the institution of

governance. The institutional environment describes the macrostructure whilst the institution of governance deals with the microstructure. Any change in the institutional environment influences the comparative cost of governance, often in predictable ways (Williamson, 1991). Williamson (1998) presents four levels of social analysis, as shown in Figure 2.7.

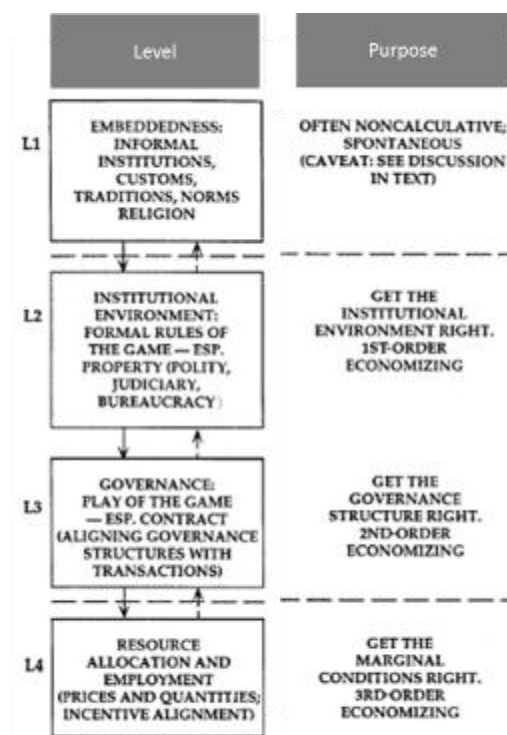


Figure 2.7. Economics of Institutions

The top level (L1) is assumed to be the least changing one and is taken as given by economists. Institutional purpose at this level is non-calculative and it takes decades for any institutional change to occur. Religious institutions are an example of institutions at this level.

The second level (L2) represents the institutional environment, which refers to the rules, policies, and property rights within which economic activities are organised. Here, the institutional purpose is to ensure that the institutional environment is right. This is considered to be a first order economizing, focusing on the system of norms and laws that organise the ownership or the transfer of property rights. The bundle of rights includes the right to use the goods and to earn the associated income, the right to transfer the goods to others, and the right to enforce property rights (Klein and

Robinson, 2011). When managing property rights, governments can either follow a commanding approach, such as the implementation of quotas on inputs and outputs, or a market based approach, such as taxes or transferable quotas. The rules of the game are defined at this level (Williamson, 1998), and are only changeable in exceptional circumstances, such as changing competitive trends, financial crisis, wars, and the dissolution of regimes.

The third level (L3) presents the field where TCE operates. TCE takes the rule of the game as shift parameters based on which the organisation adapts its economic activity by altering its governance structure. This is considered to be a second order economizing as it involves choosing the optimal governance structure, be it market, hybrid, or hierarchal, based on the contextual factors that the organisation faces in Level 2.

The fourth level (L4) requires achieving the right marginal conditions between the parties for each of the governance structures determined in Level 3. This level deals with the adjustment of the neoclassical variables with prices and outputs based on market conditions. The agency theory is directly involved in Level 4 as it covers the efficient alignment of incentives between parties with different interests and predisposition of risks.

After exploring how TCE is positioned in social sciences, this section focuses on the institution of governance and aims at understanding how firms achieve the appropriate governance structure. According to Williamson (1991), integrated structures are preferred over market structures for the following dimensions:

- Incentive intensity: the high-powered incentives of markets give way to low powered incentives in firms.
- Administrative controls: firms are supported by a more extensive array of administrative rules and procedures.
- Adaptation: markets enjoy the advantage of autonomous adaptation in response to changes in relative prices, but the advantage accrues with integrated structures as more cooperative adaptations are needed.

- Contract law: the contract law of markets is legalistic and relies on court ordering, whereas the firm replaces court ordering by private ordering and settles disputes by fiat; the firm is its own court of ultimate appeal.

The above dimensions assume that vertical integrated models are more effective than market contracting. Although TCE is inclined towards hierarchal governance structures, optimal governance decisions rely on the trade-off between cost and control. Williamson (1985) notes that vertically integrated structures are associated with high bureaucratic costs, which is not always the case for market structures. TCE is not restricted to one governance choice but to the optimal governance mode following specific assumptions that are proposed by the theory (Williamson, 1998).

2.3.1 Transaction cost economics theory assumptions

As noted above, TCE theory is based on two behavioural assumptions (bounded rationality and opportunism) and three transaction cost dimensions (uncertainty, asset specificity, and frequency). This section focuses on each of these assumptions, with the objective of examining the factors that influence governance choices.

TCE assumes that an individual's rationality is limited to the information available at the time when transaction based decisions are made. Originally derived from Simon's (1957a) examination, bounded rationality is defined as a behaviour that is intendedly rational but only limitedly so. The organisation man, as per Simon (1957a), is endowed with less analytical and data processing capabilities; he remains intendedly rational despite being limited in interpreting and solving complex problems.

Bounded rationality states that the economic actor is capable of making rational decisions, but is not always able to do so. As noted by Simon (1996a), the decision process is composed of external environmental components pertaining to the human being's response to incentives faced, as well as internal environmental components related to the human being's internal make-up that leads to deviation from the demands of the external environment. Rationality assumes the ability to specify the environmental incentives and to base decisions accordingly. Howard (1966), considered to be the founder of decision analysis theory, defines a decision made as an irrevocable allocation of resources. The author does not view the decision as a mental

commitment to follow a course of action, but rather as the actual pursuit of that course of action. The decision analysis procedure illustrated by Howard (1966) is dependent on many factors that are subject to bounded rationality, such as the interaction of the decision making process with the values and objectives of others.

Efficient decision making involves a series of steps that require inputting information at different stages of the process, as well as a process for feedback (Bayer *et al.*, 2001). All eight steps of the ideal decision making process proposed by Bayer *et al.* (2001) are influenced by human cognition and subject to the limits of their rationality. The eight steps are listed below:

- 1- Define the problem
- 2- Determine the requirements that the solution to that problem must meet
- 3- Establish goals that solving the problem should accomplish
- 4- Identify alternatives to solving the problem
- 5- Develop valuation criteria
- 6- Select a decision making tool
- 7- Apply the tool to select a preferred alternative
- 8- Check the answer to make sure that it solves the problem.

Decision making is regarded as a cognitive process. Wilson's (2002) view on embodied cognition gives an indication about the individual's bounded rationality. Wilson (2002) notes that a cognitive activity takes place in the context of a real world environment; it involves perception and action. It is time pressured and the environment is part of the cognitive system. The information flow between the mind and the world is so dense and continuous that, for scientists studying the nature of cognitive activity, the mind alone is not a meaningful unit of analysis. The function of the mind is to guide action, and cognitive mechanisms such as perception and memory must be understood in terms of their ultimate contribution to situation-appropriate behaviour (Wilson, 2002).

The evaluation between a good or a bad decision depends on the ability to interpret external and internal environmental components. A good decision is a logical decision based on the uncertainties, values and preferences of the decision maker (Howard, 1966). The key question that is of interest to our research is how TCE explains the impact of bounded rationality on governance structure decisions. Bounded rationality,

as presented by Williamson (1975), involves neurophysiological limits on the one hand, and language limits on the other. Physical limits include the capability of storing information, and language limits include the capability of interpreting information. Williamson (1975) considers that bounded rationality arises when the limits of rationality are reached under conditions of uncertainty and/or complexity. Therefore, approximation due to uncertainty replaces exactness in reaching a decision (Williamson, 1975). Bounded rationality cost is optimised in integrated models if the cost of adaptation is lower than it is in market structures (Williamson, 1975). TCE assumes that in most cases, this cost is optimised because the decision making process is more effective. The bounded rationality is more controlled as it is subject to legitimate organisational authority.

The second TCE assumption is opportunism. From a TCE perspective, opportunism corresponds to the frailty of motive, which requires a certain degree of circumspection and distrust (Williamson, 1993). The three forms of opportunism suggested by TCE are: natural, subtle and blatant. The natural form involves the embedded characteristics of human nature. Crozier (1964) defines this as the active tendency of human agents to take advantage, in any circumstances, of all available means to further their own ends. The subtle form is strategic and is described by Williamson (1985) as self-interest seeking with guile. The blatant form proposes that suppliers account for shirking behaviour, because of their awareness that agents have a tendency and a motive to shirk. Pre-emptive opportunism suggests the mitigation of opportunism by accounting for it by assigning a probabilistic value for its occurrence (Williamson, 1993). This is considered to be a cost effective way of minimizing the impact of opportunism on transaction costs.

Opportunism, whether subtle, natural or blatant, negatively influences the relationship between exchange members regardless of the governance model. TCE suggests that opportunism is better contained in integrated models than in market contracting, except when agents are fully trustworthy. Thus if agents were fully trustworthy through bounded rationally, comprehensive contracting might be feasible (Williamson, 1981). Trust is not paid sufficient attention in the TCE literature; this gap will be examined at a later stage in the research.

The third assumption is asset specificity, which is considered to be a significant locomotive of TCE, as expressed by Williamson (1998). The degree to which an asset can be redeployed by alternative users without sacrificing productive value is defined as asset specificity (Williamson, 1979). Asset specificity is determined by the level of investments incurred to execute a specific transaction. This investment is typical of the transaction, devoted to its objectives, and cannot be utilised for other objectives. Investments in asset specificity are referred to as sunk costs, transaction specific investments, or idiosyncratic investments (Williamson, 1975; Whyte, 1994).

Asset specificity requires significant specialisation levels and is considered to be unique to the task, and therefore cannot be redeployed (Williamson, 1985). TCE suggests that investments in asset specificity are unilateral from the seller (supplier) to the buyer (agent). A high condition of bilateral dependency is associated with asset specificity, increasing the likelihood of opportunistic asset exploitation. A common example given is the investment in training to build human asset specificity. The supplier might not be able to control the effective application of such training, hence driving the agent to a probable opportunistic behaviour through other suppliers benefiting from the knowledge acquired.

To avoid the misuse of transaction specific investments, TCE proposes the deployment of contracts to safeguard such investments (Williamson, 1975). At this stage, the TCE goes back to the second institutional level in order to define how to protect the transferability and the usage of assets that are specific to the transaction.

To avoid contracting complications pertaining to the safeguarding of assets, Williamson (1979) suggests that the choice of governance structure turns on the mode that involves low safeguarding levels. Asset specificity does not only elicit ex ante incentive responses, but more importantly gives rise to complex post governance structure responses (Williamson, 1975). These complex responses are mainly caused by the inability to control the related investments.

The most common forms of asset specificity presented by TCE are site specificity, physical asset specificity, human asset specificity, brand asset specificity, and dedicated asset specificity, all of which are further discussed below.

Site specificity represents the geographical distance that affects the mobility of resources. In the case of distribution operations, site specificity includes all the assets deployed to move the inventory from the original source to the end consumer. A complex geography requires substantial site specificity investments. Site specificity is operationalised through the different costs associated with transportation and logistics, including outbound and inbound transport, stock holding points, satellite, and central warehouses.

Physical asset specificity represents specific machines or technologies that are used to execute the transaction. Delivery vans, point of sale material, computer systems, and information systems are some examples of physical specificity investments.

Human asset specificity represents the level of skills required to execute the transaction. Investments in human assets include the recruitment, development, and motivation of skilled sales resources.

Brand asset specificity represents investments specific to the brand, either through media advertising, or through direct marketing, such as promotions and in store visibility. These investments fluctuate with the change in competitive pressures, the development of retail channels, and the sophistication of consumers. Brand category share is an indicator of brand asset specificity.

Dedicated asset specificity represents customised investments that are customer or supplier specific. They can take the form of physical, human, or brand specific investments.

Zaheer and Venkatraman (1994) suggest adding another type of asset specificity, referred to as procedural asset specificity, which includes information systems that are deployed to serve the need of a specific party or customer. Malone *et al.* (1987) proposed time specificity, considering that an asset is time specific if its value is dependent on reaching the specific user within a specified period of time. The distribution of consumable products with a short shelf life is an example. The logistical process has to take into account the life span of the product in order to make sure that it reaches the final consumer in good quality.

Asset specificity is operationalised based on its degree of specialisation to support a particular transaction; Williamson (1985) suggests classifying asset specificity based on the degree of specificity. In non-integrated governance structures, asset specificity is associated with different sets of costs that pressure transaction costs (Klein *et al.*, 1978; Williamson, 1985):

- Search costs: include the costs of gathering information to identify and evaluate potential trading partners.
- Contracting costs: refer to the costs associated with negotiating and writing an agreement.
- Monitoring costs: refer to the costs associated with monitoring the agreement to ensure that each party fulfils the predetermined set of obligations.
- Enforcement costs: refer to the costs associated with ex post bargaining and sanctioning a trading partner that does not perform according to the agreement.

Uncertainty, which is the fourth TCE assumption, represents the external environmental factors that affect the transaction and the reactions of individuals to such factors. Environmental factors are uncontrollable and include market volatilities, competition, and behavioural trends. Individual factors mostly concern the awareness and cognition of individuals relative to uncertainties. Individual factors are affected by the bounded rationality of the individual, which determines his ability to adapt and react to the environment (Williamson, 1975).

Most of the definitions presented in the literature are congruent with the two dimensions of uncertainty: the external uncontrollable dimension affecting the set of organisations in an industry, and the internal reactive dimension representing organisational/individual cognition and behaviour with respect to the environment.

Some authors define uncertainty as a lack of information about cause and effect relationships (Duncan, 1972); others define it as the inability to accurately predict the outcomes of a decision (Hickson *et al.*, 1971; Schmidt and Cummings, 1976). The visibility and the predictability dimensions are at the core of the uncertainty construct. Koopmans (1957) describes uncertainty as a subjectively estimated probability distribution incorporating both dimensions. Primary uncertainty is of a state contingent

kind, while secondary uncertainty arises from a lack of communication or awareness. Secondary uncertainty has a negative intentional facet, the self-interest/opportunism reaction (Helfat and Teece, 1987).

TCE considers that these behavioural assumptions arise due to incomplete contracting. Hazards are due to the behavioural uncertainties that arise when incomplete contracting and asset specificity are joined (Williamson, 1975). The mitigation of uncertainty through alternative governance choices necessitates further understanding of the measurement of the uncertainty construct and the relationship between the uncontrollable and the reactive factors.

The two measures of uncertainty proposed by the literature are objective measures and perceptual measures (Downey *et al.*, 1977; Tung, 1979). The distinction between the two measures is derived from a gap in the literature pertaining to the measurement of environmental uncertainty (Milliken, 1987). Objective measures describe the state of the organisational environment and the perceptual measures describe the state of the cognition of the individual relative to this environment.

Milliken (1987) defines uncertainty as the perceived inability of the individual to predict something accurately. The author suggests three types of environmental uncertainty, each having its own implication for organisational behaviour (Milliken, 1987):

- **State uncertainty (or perceived environmental uncertainty):** is the inability to assign probabilities to the likelihood of future events (Milliken, 1987). Administrators experience state uncertainty when they perceive the organisational environment, or a particular component of that environment, to be unpredictable (Milliken, 1987). Managers can be uncertain about environmental actions such as competition, government, suppliers, or about environmental natural conditions such as consumption trends, demographics, political, currency and price volatilities, developments in technology...etc.
- **Effect uncertainty:** is the ability to interpret the impact of state uncertainty. Milliken (1987) defines effect uncertainty as the inability to predict the impact of a future state of the environment or environmental change on the organisation.

- Response uncertainty: is related to the reactive capability of the individual in terms of decision making. It is associated with attempts to understand the various response options available to the organisation and the value or utility of each (Milliken, 1987).

Controlling state uncertainty is very difficult, and both effect and response uncertainties require significant coordination and monitoring skills. Firms have to deploy the right skills to analyse the impact of effect uncertainty and the right knowledge to react to response uncertainty. Williamson (1998) suggests that when the uncertainty and asset specificity levels are high, the coordination costs in market contracts can be greater than in vertical integration. A vertically integrated structure is therefore a better alternative if the cost of internal adaptation is lower than the cost of external adaptation.

The last TCE assumption is the frequency dimension, which strictly refers to the activity of the buyer in the market (Williamson, 1985). Three frequency categories are presented by TCE: one time, occasional and recurrent. One time transactions are considered discrete; one stop transactions between a traveling buyer and a foreign grocer is an example. Occasional transactions represent different types of transactions between one or multiple sellers and multiple buyers. TCE focuses on recurrent transactions where the exchange members have a long term interest in the relationship.

2.3.2 Governance structures

TCE is especially concerned with the choice of the governance structure under specific behavioural and transaction cost dimensions. Each of the governance mechanisms suggested by TCE is influenced by assumptions of bounded rationality, opportunism, uncertainty, frequency, and asset specificity. The governance structures examined are vertical integration, hybrid contracting, long term relational contracts, informal agreement, and franchising agreements (Williamson, 1985). Table 2.3 (Williamson, 1985) is used in this examination.

		Nonspecific	Mixed	Idiosyncratic
Frequency	Occasional	I Purchasing Standard Equipment	III Purchasing Customized Equipment	V Constructing a Plant
	Recurrence	II Purchasing Standard Material	IV Purchasing Customized Material	VI Site-Specific Transfer of Intermediary Product Across Successive Stages

Table 2.3. Investment Characteristics

Quadrants I and II in Table 2.3 incorporate investments that are not specific to the transaction. Prices are decided by supply and demand, and complete information is available (Alchian and Demstetz, 1972). Market governance is represented in the relationship between the buyer and the seller of raw material, where prices are decided by the market based on tender deals. The parties in nonspecific but occasional transactions are less able to rely on direct experience to safeguard transactions against opportunism (Williamson, 1979). As the goods or services are standardised, the parties can refer to rating sources or to other dealers who have shared a similar experience. Market contracting of the neoclassical type does not involve many contracting complications. The relationship is discrete and the availability of alternatives in the market protects the parties involved in the exchange.

Trilateral governance is concerned with occasional mixed transactions and substantially idiosyncratic transactions. This model entails the transfer of assets for a specified period of time. Once suppliers have entered into a contract, there are strong incentives to see the contract through to completion (Williamson, 1979). The substantial investments incurred and the specificity of the contracting necessitates the intervention of an intermediary to make sure that contracts safeguard against opportunism.

When investments are specific to the transaction (customised purchase), they can be contracted to specialised agents, or internally integrated due to their recurrent nature. Three types of governance structure are common in the strategic management literature (Hill and Jones, 2010):

- Horizontal integration: refers to the process of merging with industry competitors.
- Vertical integration: refers to backward and forward integration. Organisations, be they suppliers or agents, may decide to expand their operations by moving into the production of inputs through backward integration models, or the distribution of outputs through forward integration. TCE refers to integrated governance structures as unified or hierarchal governance structures (Williamson, 1979).
- Strategic outsourcing: refers to the delegation of some value creating activities within a business to specialised agents. These are referred to as buy or market structures. Partial outsourcing/integration governance structures are denoted by hybrid/mixed structures.

Assets of high specificity to the transaction require a high degree of specialisation in the case of substantially idiosyncratic investments. For mixed idiosyncratic investments, the firm chooses between bilateral governance and vertical integration based on transaction cost optimisation. A major challenge of bilateral contracting is the adaptation to uncertainties and the mitigation of opportunism. As suggested by TCE, a trade-off is to be made between the various components of agency costs in outsourced models and transaction costs in integrated structures. The trade-off should consider the indirect costs associated with contracting complexities to safeguard transaction specific investments.

A summary of TCE is illustrated in Figure 2.8. The assumptions raised by the theory are opportunism, bounded rationality, uncertainty, asset specificity and frequency. Following these assumptions, it will be difficult to control performance and optimise transaction costs, leading to contract failure. To mitigate these risks, TCE proposes the integration of the assets of high specificity.

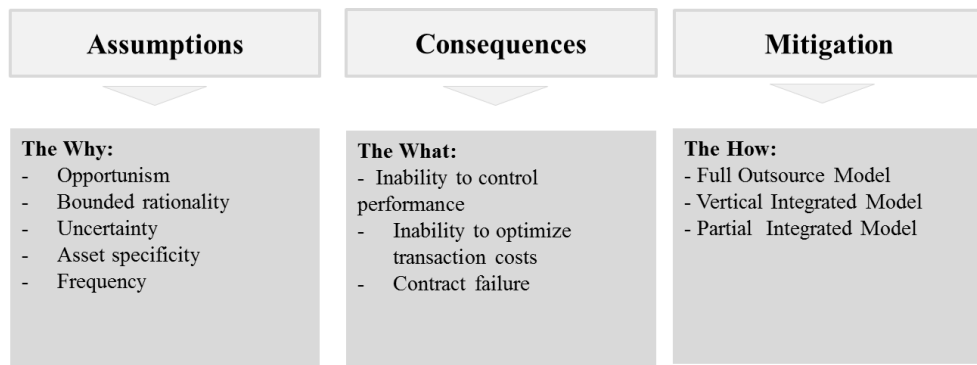


Figure 2.8. Summary of Transaction Cost Economics Theory

2.4 Applicability of the Agency and Transaction Cost Economics Theories

2.4.1 Applicability of the agency theory

The applicability of the agency theory across organisations is centred on one of the areas that are concerned with the mitigation of the problem of loss of control. Spence and Zeckhauser (1971) explored the application of the agency theory in insurance. The authors identified three monitoring cases:

1. The supplier can monitor the state of nature: a full risk spread can be achieved without the need to concentrate on adverse incentives.
2. The supplier can monitor the actions of the agent: adverse incentive problems can be avoided by structuring the insurance payoff function to enforce the choice of the appropriate actions taken by the agent.
3. The supplier cannot control the actions of the agent: a signal that depends completely or partially on the action of the agent is employed.

Anderson and Olivier (1987) used the agency theory to examine the effectiveness of sales control systems. The authors differentiated between outcome and behaviour based systems, but their propositions have not been empirically tested. Krafft (1999) bridges this gap, providing an empirical examination to analyse how the antecedents identified by agency and TCE theories (uncertainty and sales people effectiveness) affect the design of sales control systems (behaviour and outcome based control systems). The findings are congruent with the suggestions put forward by Anderson and Olivier (1987). Basu and Kalyanaram (1990) and Berhold (1971) have shown that in a context of environmental uncertainty, behaviour based compensation is preferred, as it is

difficult to predict outcome. Suh and Kim (1989) found that monitoring investments is high in situations where outcome is low. Abrahamson and Park (1994) found that corporate officers tend to conceal outcomes from shareholders when these outcomes are negative. A concealment strategy is often used by subordinates when the outcome does not meet the expectations of the shareholders (Goodman, 1980; Bettman and Weitz, 1983; Salancik and Meindl, 1984). Concealment is mitigated by enhancing coordination and closer management approaches between shareholders (suppliers) and corporate officers (agents).

Bahli and Rivard (2003) used the agency and TCE theories as theoretical foundations to propose a scenario-based conceptualisation of information technology outsourcing risk. Holmstrom and Milgrom (1991) examined the complexity of defining performance measures in job design, and found that performance measures may lead to conflicting results as they aggregate contrasting aspects of performance and omit other aspects that may be essential to the firm. This is a typical issue of outcome based control systems as they do not consider the effort expended to achieve the outcome.

The universality of the agency theory is well noted by its originating authors. Studies of moral hazard and welfare maximisation explored in the economic literature, information flows, financial intermediaries, corporate companies, universities, and governmental entities are examples of the application of the agency theory (Ross, 1973; Demski and Feltham, 1978).

2.4.2 Applicability of the transaction cost economics theory

The TCE theory proved to be as universal as the agency theory. Monteverde and Teece (1982) emphasised investments in human specificity and used TCE to test the impact of know-how transfer in the automobile industry. They found that backward integration is an efficient model since the know-how asset is firm specific and is congruent with its internal system; the same result is confirmed by Masten *et al.* (1989).

Crocker and Masten (1985) examined the cost associated with adapting contracts to hazard situations, and found permanent adaptation through court systems to be costly. Hence, unilateral governance can be an alternative governance mode as the parties

jointly account for exogenous events, increasing the duration of the contracts. Riordan and Williamson (1985) identified a positive relationship between production cost savings and vertical integration.

Hierarchical governance is considered to be an optimal structure in the case of economies of scale. Liang and Huang (1998) used the TCE to test the marketing of products through electronic commerce. The authors found that customer choice is determined based on the transaction cost associated with the channel. Kotabe and Murray (1999) used the TCE to understand sourcing decisions. The authors found that for high specificity firms, supplementary services should be sourced internally if these services are performed infrequently.

Anderson and Schmittlein (1984) tested the TCE theory on the sales operation of 16 recognised electronic manufacturers. Using survey analysis, the authors identified a positive relationship between high levels of asset specificity, performance evaluation systems, and integration choices. Frequency and uncertainty seemed to have little impact. In their analysis, outcome based performance is assumed to be a preferred choice over behavioural based performance, due to the issue of measuring behaviour performance. The analysis was restricted to a small sample using industry specific variables. Anderson (1985) examined the impact of TCE variables and sales performance evaluation on integration. A strong relationship was found between uncertainty and the difficulty of assessing sales behaviour and integration. However, a weak relationship was found between other environmental uncertainty conditions and governance choice. Travel requirements show no impact on integration, which might be related to the type of customers in the territory. Salespersons can rely on the performance of their own territory without the need to travel. Anderson (1985) explains the factors that influence integration; the study is considered a good basis to analyse sales force integration. The weak relationship between environmental uncertainty and integration is an important gap and might be related to the static non-competitive market condition in which the sales team is operating. The negative relationship between travel and governance indicates that the sales environment is somehow stable; a salesperson does not need to go beyond his territories as long as his performance is satisfactory. John and Weitz (1988) used a similar approach with industrial goods. They examined the impact of transaction cost dimensions on forward integration and found a positive

relationship between production costs (economy of scale) and integration. The authors present a macro measurement of uncertainty, incorporating environmental and behavioural dimensions. Heide and John (1988) argue that vertical integration is not feasible for small firms. Hence, they introduced the safeguard of specific assets when long term contractual protection is not present. The authors found that agencies with specific assets safeguard their investments through offsetting investments with key customers. Their findings support the extendibility of the TCE theory as they proposed an alternative to the integration safeguarding model. Klein *et al.* (1990) developed two types of uncertainties, environmental and diverse, and used pre-study interviews to define operational measures. They found that channel integration is a preferred choice when special knowledge and investments are needed to facilitate transactions. High volume production proves to be related to integrated channels. The relationship between uncertainty and channel integration requires further development; the authors suggest distinguishing between the volatility and the diversity dimension of uncertainty.

The relationship between asset specificity and integration is well demonstrated empirically (Anderson and Schmittlein, 1984; Anderson, 1985; John and Weitz, 1988; Anderson and Coughlan, 1987; Klein *et al.*, 1990; Heide and John, 1988). There is a consensus that outcome based compensation is the optimal incentive mechanism (Ouchi 1979; Krafft, 1999; Anderson and Olivier, 1987; Basu *et al.*, 1985; Eisenhardt, 1985; 1988). As defined by Alchian and Demstet (1972), metering presents an issue from an agency perspective, and internal uncertainty and monitoring complexity, as defined by Williamson (1981), present an issue from a TCE perspective. The mitigation proposed by AT is based on incentives, rules, information systems, and contract alignment. The TCE proposes either vertical integration when it is affordable to integrate (economies of scale), or safeguarding transaction specific investments through formal contracting and high coordination capabilities. Both theories are able to provide a universal logical description of how organisations adapt to behavioural assumptions, such as opportunism and bounded rationality, and to environmental assumptions, such as uncertainty, complexity, and diversity.

2.4.3 Critiques of the transactional approach

The agency and TCE theories clarify how suppliers might react to mitigate the supplier agent problem. The mitigation strategies considered by the transactional approach alone

may not be sufficient to understand the behaviour of suppliers and agents in the Middle East. Both theories have been criticised by social theorists (Granovetter, 1985; Ghoshal and Moran, 1996) for giving little importance to the role of trust in social exchange. The same uncertainty condition that leads individuals to behave opportunistically may lead others to trust (Jones, 1998). As noted by Granovetter (1985), economic actions are embedded in structures of social relations. In some societies, trust has critical cultural dimensions. TCE has also been criticised by evolutionary theorists, who consider that governance structures can evolve over time through learning processes and through changes in the environment. Langlois (1986) gives an example of how the auto industry has evolved in the US. In the early days of the industry, automobile makers outsourced for almost all the parts and were only assemblers. This has dramatically evolved (Langlois, 1986). Another criticism of TCE is associated with the dichotomy between two types of governance structure: pure hierarchy and pure markets (Perrow, 1986). Although TCE suggests hybrid structures as an intermediary form of governance, not enough emphasis is given to this form (Hennart, 1993). Other researchers have criticised the TCE for the difficulty of operationalising its variables (Klein & Shelanski, 1995).

Table 2.4 presents the main gaps that questioned the ability of the transactional approach to explain certain phenomena.

Critical Gaps	Authors	Arguments
Economics Dynamics	North (1994)	The author argues that transactions and forms of governance have to adapt to the evolution of the institutional environment. A theory of economics dynamics is presented that assumes that the interaction between institutions and organizations shapes the institutional evolution of an economy. The theory suggests a need to understand more about the cumulative learning of a society. The learning process appears to be a function of 1- the way in which a given belief structure filters the information derived from experiences and 2- the different experiences confronting individuals and societies at different times.
Relational view & Social Embeddedness	Granovetter (1985)	Focuses on on the extent to which the economic action is embedded in structures of social relations; which criticizes Williamson's markets and hierarchies paradigm.
	Rooks et al.(2000)	The authors find that social embeddedness of transactions makes other management mechanisms than contractual planning feasible. Purchase managers take not only 'economic' characteristics into account, but also the 'social' characteristics of a transaction. The study presents two types of social embeddedness:1-Structural embeddedness in social relations (temporal and network embeddedness), and 2- institutional embeddedness.
	Dyer & Singh (1998)	The authors position the relationship as the unit of analysis to understand competitive advantage. The authors presents four sources of interorganizational competitive advantage: 1-Relation-specific assets, 2-Knowledge sharing routines, 3-Complementary capabilities, 4- Effective governance.
Embedded knowledge and Transfer of Competence	Leiblein (2003)	TCE held capabilities and strategies constant across firms. This study shows that firm-level capabilities and strategies independently and significantly influences firm's vertical boundary choice. The author focuses on the embedded knowledge & experience in a firm and its influence on governance structures. They find for example that firms having greater experience in a production may internalize manufacturing activities and those who have high levels of sourcing experience are more likely to outsource their production.
	Nickerson et al. (2004)	The authors propose an extension of TCE by reconciling it with the knowledge-based view of the firm. High levels of knowledge transfer attributes: knowledge tacitness or problem solving complexity, lead to the adoption of knowledge management practices that economize on the cognitive limitations of man. The more advantageous is to rely on equity-based collaborations compared to relying on non-equity based collaborations.
	Uzzi et al.(2002)	Present a strategic process defined as 'network transitivity' which examine how the competencies and resources of one corporate actor in a network are transferred to another actor that uses them to enhance transactions with a third actor. Building on social embeddedness theory, the authors derive hypotheses about how embedded bank-firm relationships affect the strategy of small- to medium-sized firms. The study finds that social embeddedness beneficially affects the financial performance of the firm.
Theory of the firm	Coase (1988)	With the objective of making the theory of the firm operational, the author suggests focusing on the interrelationships between the costs of transacting and the costs of organizing. By understanding these forces, firms may realize that the cost of market transactions may be less than vertical integration as long as they account for certain complexities such as: pricing practices, contractual arrangements and organizational forms.

Table 2.4. Critiques of the Transactional Approach

The research takes these critiques into account and assumes that the transactional approach cannot predict the risk mitigation behaviour of suppliers and distributors independently of the relational and the evolutionary approaches. The role of trust cannot be undermined, as trust is embedded in Middle Eastern society. The dynamic capability perspective can also not be neglected, as the research is taking place in a changing channel environment: retail evolution.

If the strategies to mitigate dyadic risks in the Middle East do not take into account the social and institutional channel contexts, the research might be subject to severe criticism from academicians and practitioners for not shedding light on key areas that may be of critical importance for both theory and practice. An extended literature review is thus required that aims at clarifying why the relational and the evolutionary approaches are important for the present research.

2.5 The Relational Approach - The Role of Trust

The TCE does not differentiate between opportunism as behaviour and opportunism as an outcome (Ghoshal and Moran, 1996). This differentiation is essential primarily because the level of opportunism can differ between firms (Bromiley and Cumming, 1995) and secondly because opportunism as an outcome can be reduced by means of internalisation. The TCE acknowledges the importance of trust (See Williamson 1993) but does not emphasise it, although the relationship between trust and partnership on one hand and trust and transaction cost optimisation on the other are well noted in the literature (Fukuyama, 1996). Noorderhaven (1995) examines this gap and introduces the concept of differential opportunism. Bromiley and Cumming (1995) and John (1984), also examined this gap in the context of normative and instrumental commitment.

With the existence of different governance mechanisms, the transactional perspective alone is not sufficient to understand the relationship between suppliers and agents. The relational perspective plays a role and might take the place of the transactional approach. Looking at the dyadic relationship from the angle of trust will significantly contribute to both theory and practice, especially in a culture like the one that exists in the Middle East.

2.5.1 The notion of relational contracting

Formal contracts are important to legally safeguard a relationship and curb opportunism. Vertical integration eliminates opportunism, but comes at a high cost for the supplier.

Informal contracts are oral and legally unenforceable agreements. They are operationalised through the commitment of volume, the promise of dedicated assets, and the guarantee of specified service standards, consequently providing some price flexibility helping to arrange, implement, and monitor contractual safeguards (Palay, 1985).

The relational contract theory emerged early in the 1960s with the exploration of Stewart Macaulay. Macaulay (1963) focused on how exchange members regulate their behaviour without relying on legal contracts. In his interview with senior professionals,

Macaulay observed that exchange members are able to resolve their disputes without referring to signed formal agreements. Consequently, even in the presence of a legal and well planned contract, the parties prefer to negotiate a solution and achieve an agreement regardless of the existing contract. Relational contracts integrate the social behavioural perspective with the economic legal perspective as relationships cannot be isolated from their social contexts. Ian Macneil, considered to be among the founders of the relational contract theory, does not neglect the importance of the legal agreement, calling it the social glue of relational contracting. The theory is called a relational theory of contract but not a theory of relational contracts. Once relational members secure their relationship with formal contracting, informal contracts can come as a complement, or sometimes as a substitute. Macneil consequently focuses on the social dimensions that are naturally embedded in the relationship.

“Contracts are relationships among people who have exchanged, are exchanging, or are expected to exchange in the future.” (Macneil, 1987: 274).

It is important to explore relational contracting in the post formal contract phase and address such issues as how parties commit to the relationship, how they behave, and what drives their behaviour. Formal contracts are tools that can be used when necessary, but it is the relational parties' behaviour and private intentions that determine what is defined by Macneil (1983) as relational norms, summarised in Table 2.5.

Relational Norms	Details
Integrity	When parties capitalize on their historical relationship and mutual experience to prevent them from seeking their private goals seeking relational goals.
Reciprocity	When each party assumes it will get something back for something given.
Implementation of planning	Roles and responsibilities to define how to manage the relationship or how to implement the contract.
Effectuation of consent	The costs of future opportunity losses due to the availability of other alternatives in the market
Flexibility	Includes coping with a different set of uncertainties: Agent uncertainties, cost uncertainties and performance uncertainties.
Contractual solidarity	Represents society's understanding of what is just: the behavioural rules of society.
The linking norms: restitution, reliance and expectations interests.	Restitution is a must when one party gains unjustly from the exchange. Reliance is required for the promises that are extended but are not subject to legal ramifications.
Creation and restraint of power	Contracts set power the exercise of which is limited by modern society. Power is alleviated by the norm of reciprocity and the effectuation of consent.
Propriety of means	Includes the ways developed between relational members to resolve conflict without using formal means which might negatively influence the relationship.
Harmonization with the social matrix.	Harmonization in the means of communication, the exchange and monetary system and the mechanisms to enforce promises.

Table 2.5. Relational Norms

Following these norms, exchange relations occur “*in various patterns along a spectrum ranging from highly discrete to highly relational*” (Macneil, 1983: 342). Although Macneil’s norms were viewed as complex (Austen-Baker, 2009), what matters is that each of these norms is positively related to the development of trust and the mitigation of opportunism. For this reason, the sociological perspective is considered to be the founding base of the relationship marketing discipline, where trust is at the core of the exchange (Zaheer and Venkatraman, 1995).

2.5.2 Overview of trust and commitment

Building partnership relationships between supply chain members is a strategic need in today’s hypercompetitive environment. Proponents of relationship marketing concentrate on long term relationship building that focuses on the move from a customer capture tactic to a customer retention strategy (Kotler, 1991). Relationships developed over time are mainly built based on trust and commitment .The notion of relationship commitment and trust has been considered to be the key tenet of the social exchange literature (Thibaut and Kelley, 1959; Blau, 1964) and the organisational

behaviour literature (Becker, 1960; Reichers, 1985). In the service industry, commitment is considered the basis of exchange relationships and a main determinant of brand loyalty (Gronroos, 2006; Moorman *et al.*, 1992). In channel relationships, attention is paid to the role of commitment and trust to enhance channel performance (Moorman *et al.*, 1992) and to achieve a relationship-based competitive advantage (RBCA) (Morgan and Hunt, 1994). In relationship marketing literature, commitment is defined as an enduring desire to maintain a valued relationship (Moorman *et al.*, 1992). This definition is further elaborated by Morgan and Hunt (1994), who consider that an on-going relationship is extremely important and therefore the parties involved should employ maximum effort to maintain it and ensure it lasts indefinitely. Dwyer *et al.* (1987) define commitment as an implicit or explicit pledge of relational continuity between exchange partners.

Long term orientation is a common dimension found in most studies exploring the commitment construct (Dwyer *et al.*, 1987; Moorman *et al.*, 1992; Morgan and Hunt, 1994; Anderson and Weitz, 1992; O'Reilly and Chatman, 1986; Ganesan, 1994). Long term returns are achieved when there is an expectation of future exchange through the focus on the desire of the parties in this exchange (Noordewier *et al.*, 1990). The expectation of a future interaction transforms the transaction from a discrete nature to a relational transaction that is repeated and accumulated over time (Macneil, 1983; Dwyer *et al.*, 1987; Kaufmann and Stern, 1988; Noordewier *et al.*, 1990). Anderson and Narus (1990) conclude that commitment to channel partners represents a long term orientation towards the channel relationship. This conclusion is mostly supported by the attitudinal component of commitment. Mowday *et al.* (1979) define the two components of commitment as attitude and behaviour. It is suggested that the attitudinal commitment of the retailer is a long term orientation to its relationship with suppliers (Morgan and Hunt, 1994; Anderson and Weitz, 1992).

Morgan and Hunt (1994) examine the relationship between trust and commitment and propose that the former is a precondition for the latter. Cook and Wall (1980) explore the relationship between trust and confidence and define trust as the extent to which one is willing to ascribe good intentions to, and have confidence in, the words and actions of other people. From the same perspective, Moorman *et al.* (1992) define trust as the willingness to rely on an exchange partner in whom one has confidence. Mayer *et al.*

(1995) define trust as the willingness of a party to be vulnerable to the actions of another party based on the expectations that the latter will perform a particular action important to the former, regardless of the former's ability to monitor or control his actions. Doney and Cannon (1997) examine five processes used to develop trust: the calculative process, the prediction process, the capability process, the intentionality process, and the transference process. The calculative process is extracted from the TCE approach (Williamson, 1991) and involves calculating the costs of staying in the relationship. The capability process focuses on the credibility dimension and is related to the ability of the agent to keep his promises. The transference process suggests that trust can be transferred from one party to the other through the intentionality process, with the objective of developing shared values and objectives. The predictability process enables each party to predict the future behaviour of the other party, thus decreasing the associated levels of uncertainty.

Ganesan (1994) identifies four antecedents of trust: satisfaction, perception of transaction specific investment, experience, and reputation. Each of these antecedents is positively related to the buyer's perception of the benevolence and credibility of the vendor. Ganesan (1994) notes that trust is positively related to the seller's perception of transaction specific investments made by the vendor.

Due to its important role in the exchange, several authors propose that trust is a substitute for explicit contracts and vertical integration (Noorderhaven, 1995; Granovetter, 1985; Bernheim and Whinston, 1998; Dyer and Chu, 2003; Uzzi, 1997). Barney (1991) introduces the notion of the psychological contract, which is considered to be a fundamental commitment between exchange members, taking the place of formal contracts.

Informal contracts depend on the development level of the legal system in each country. Existing literature on informal contracting shows that informal contracts are not only implemented when the relationship between the trading members is informal, but also when protecting the relationship through formal contracting proves difficult due to the absence of a well-established legal system. Hence, informal contracts are predominant in emerging countries. McMillan and Woodruff (1999a) examined informal contracts in

Vietnam, Allen *et al.* (2005) studied their application in China and India, while Bigsten *et al.* (2000) explored their application in the Sub-Saharan African countries.

Grief (1993) shows that informal contracts can be effective even in well-established legal systems. Each member of the relationship, whether suppliers or agents, can maintain their cooperation as long as they are provided with credible promises that the long term relational returns achieved will exceed any potential profit generated through self-interested behaviour (Grief, 1993).

Noorderhaven (1995) defines trust as the willingness of an agent to engage in a transaction in the absence of adequate safeguards. In this case, the supplier assumes the risk of incurring costs that outweigh the benefits. As noted by Noorderhaven (1995), differences in the degree of opportunism between economic actors can be associated with lower levels of safeguards based on reputation, personality, institutionalisation, or organisational culture. The general proposition formulated by Noorderhaven (1995) is that lower opportunism levels lead to higher trust levels and are therefore associated with safeguards that are less restrictive.

The agency theory mostly focuses on extrinsic incentives that are driven by explicit rewards. These rewards might lead to compliance, such as instrumental commitment, but will not induce a revolutionary change in the assumed opportunistic behaviour of the agent. In addition to examining the impact of TCE and AT assumptions on governance structure, the research also considers the impact of trust on governance structure decisions given the social and culture context in which the topic is explored (Middle East). Such an exploration is inevitable, especially with the rise of relationship economies that are based on trust and commitment (Morgan and Hunt, 1994).

TCE confirms that building trust between supply chain members may curb opportunism. Trust has a major role in economic exchange and in cooperative relationships (Smith and Van Langenhove, 1995). In such a context, it is logical to examine the factors that most impact on governance decisions: do suppliers make their decisions based on transaction and agency factors, or do they take into consideration the history of their relationship with their agents to drive organisational change and mitigate the impact of uncertainties and opportunism?

2.5.3 *Trust within supply chain relationships*

As presented in Section 2.5.2, trust has an important role in building sustainable relationships. This section focuses on the role of trust within supply chain relationships. Following a review of 614 articles covering supply chain topics, Burgess *et al.* (2006) found the largest grouping of articles in the operation management discipline, followed by strategy and purchasing, with only a few articles focusing on psychological issues such as power differentials, trust, and cooperation. This finding helped accelerate the pace of academic research on trust within supply chain relationships. Due to the contribution of many authors, attention has shifted within the supply chain discipline from the transactional view of supply chains to the relational view. Considerable significance has been given to the socialisation processes and long term relationship building between supply chain members. Socialisation processes enable partners to learn about the culture of others, establish the possibility of alignment, and adjust their behaviour to establish successful outcomes in some cases (Cousins *et al.*, 2006).

A collaboration based on trust is achieved, not through the exchange of goods between supply chain members, but through the exchange of information (Handfield and Nichols, 1999) and the exchange of know-how (Dyer and Singh, 1998). Transparency across the supply chain is associated with improved supply chain performance, an optimisation of supply chain costs, and a reduction in contractual complexities between supply chain partners. The term ‘lean supply’ was introduced based on these principles. Simons *et al.* (2004) show that trust and contract complexity are fundamental variables for lean supply. The authors use TCE to explain the likely behaviour of British food retailers to act opportunistically.

Transparency and the elimination of information asymmetry are key drivers of trust between supply chain members. Supply chain transparency was metaphorically defined by Lamming *et al.* (2001) as the behaviour of the light as an analogy for the transfer of knowledge in relationships. Three situations may occur in a supply chain relationship (Lamming *et al.*, 2001):

- An opaque situation is when the light cannot penetrate the surface of the substance; in such a case no information is shared between supply chain members. Even the day to day operation information is obscured.

- A translucent situation is when the light can enter and exit the substance but with distortion. This is similar to a black box collaborative design, where only partial information is shared.
- A transparent situation is when the light can enter and exit without any disturbance. Information is shared on a selective and justified basis. Development of information leads to shared knowledge and collaborative abilities.

The relationship between supply chain members is also a relationship between individuals. Interpersonal trust plays an important role in integrated supply chains (Zaheer *et al.*, 1998). If the people managing the relationship from both sides of the chain block the transfer of information (opaque and translucent situations) the level of friction will increase and will ultimately erode the levels of trust.

High levels of trust between supply chain members should offset relational risks in transparent situations. As elaborated by Das and Teng (2001), higher levels of trust between supply chain members result in lower probabilities of opportunistic behaviour. Such an assumption cannot be generalised without accounting for the power relationship between supply chain partners. According to Cox (2001), there will be only a few power circumstances that will encourage collaboration in situations of buyer dominance or in balance of power situations to create interdependence. The dominant power of retailers in food supply chains in the UK and other similar contexts influences the level of collaboration between supply chain partners. Retailers abuse their power to act opportunistically. In the Middle East, and according to the agency theory, information is considered to be an important source of power for distributors which gives them the right to act opportunistically, thereby increasing the probability of relational risks occurring.

In such situations and although the barriers to collaboration are high, the socialisation processes and their impact on trust development cannot be neglected. Socialisation creates a network of interdependent social exchanges, and increases the level of mutual trust in the relationship (Cousins *et al.*, 2006). The sharing of critical information should comprise of joint goal setting and joint problem solving, which demonstrates that, irrespective of the size of the supply chain members and their respective bargaining

strengths, they are willing to work towards a mutually beneficial relationship (Sahay, 2003). Such interaction drives the members of a supply network to engage in learning processes (Hakansson and Ford, 2002) that also contribute to overcoming collaboration barriers.

It cannot be assumed that trust has the same impact in multicultural supply chain networks. Sako and Helper (1998) use TCE to explore the determinants of trust and opportunism in the United States and Japan. The authors find an important difference in the conceptualisation of trust between both countries. Japanese suppliers were found to be more trusting than U.S. suppliers. Even if American suppliers such as General Motors have safeguarded themselves against opportunism, they are still perceived as distrustful customers indicating that they failed to convince their suppliers that their commitments are credible.

Trust within supply chain relationships is also affected by the structure of the chain. The success of supply chain processes such as sales and operations planning depends on the levels of trust established with customers, strategic suppliers, senior managers, and internal functions (Carter *et al.*, 2009).

The literature on trust within supply chain relationships supports the notion of relational contracting explored earlier. Transparency, open culture, and the quality of the team on either side of the chain unlock the boundaries between supply chain members and enhance the levels of trust. The current research draws on TCE and the agency theory to show how trust mitigates dyadic risks.

2.6 The Evolutionary Approach

The agency and TCE theories relied on opportunism and information asymmetry assumptions, and neglected other avenues that are associated with contextual variations, organisational learning, and capability development. These gaps were addressed by the evolutionary perspective (Nelson and Winter, 1982).

The evolutionary perspective was introduced mainly to address the processes of economic growth and economic alterations driven by technological and other

environmental changes. TCE has been criticised for neglecting key assumptions raised by the evolutionary perspective, such as differential capabilities and market adaptive processes (Langlois, 1986). Some authors suggest that the evolutionary perspective complements the transactional perspective (Foss, 1996).

According to the TCE, an efficient organisation is one that adapts its governance structure to optimise transaction costs and maximise production value. Although outsourcing can have positive implications for production value, organisations should not neglect the costs associated with outsourcing, including the hold-up problem (Williamson, 1985), coordination costs (Williamson, 1975; Radner, 1992), and agency costs (Alchian and Demstet, 1972). The TCE favours vertically integrated structures because of these supplementary costs. TCE explains how the boundary of the firm is created, but does not explain how the firm transforms itself and adapts to a changing environment. The process of innovation, skills, and learning is excluded from the transactional perspective. TCE assumes that governance is not an isolated phenomenon and is influenced by environmental shift parameters and individual behavioural attributes (Williamson, 1975). TCE thus assumes a static environment and does not place much emphasis on the process of evolution. Firms gain competitiveness by enhancing the specificity level of certain assets. The enhancement process is activated through learning and experience and through interaction between the firm and its environment. Such interaction becomes a necessity for certain types of transactions with technological evolution and changes in the economic contexts.

2.6.1 Overview of evolutionary theory

Evolutionary economics criticised the theory of the firm for its reliance on market equilibrium and profit maximisation. The theory does not emphasise the learning maximisation and organisational adaptation to economic changes. For the founders of evolutionary economics, the firm is treated as being motivated by profit but the theory does not focus its analysis on hypothetical states of industry equilibrium (Nelson and Winter, 1982). The evolutionary theory relied on the Darwinian principle to explain the adaptation of firms to changes in the environment. According to the Darwinian Theory, organisms that are best adapted to their environment are naturally selected and are the ones which will survive. These organisms transmit their genetic characteristics to succeeding generations. The key themes in Darwinian theory are adopted by Nelson and

Winter's (1982) evolutionary theory. Genes are equated with organisational routines, the cornerstone of the evolutionary theory, and industry is equated with the species and the firm with the organism.

“Our general term for all regular and predictable behavioural patterns is ‘routine.’... In our evolutionary theory, these routines play the role that genes play in biological evolutionary theory. They are a persistent feature of the organism and determine its possible behaviour (though actual behaviour is determined also by the environment); they are heritable in the sense that tomorrow’s organisms generated from today’s (for example, by building a new plant) have many of the same characteristics, and they are selectable in the sense that organisms with certain routines may do better than others, and, if so, their relative importance in the population (industry) is augmented over time.”(Nelson and Winter, 1982: 14.).

The two key concepts that dominate modern organisational theory and evolutionary theory are routine and learning (Cyert and March, 1963; Nelson and Winter, 1982). Routine describes organisational behaviour, and any change in this behaviour leads to organisational change (Nelson and Winter, 1982). Routines take the place of profit maximisation and agency contracts, and are positioned as the fundamental unit for the evolutionary theory. According to Becker *et al.* (2005), most of the literature on organisational routines falls into one of the categories below:

- Collective behavioural regularities: how to describe the transition between individual and collective behaviour in the context of heterogeneous firms, the behaviour of the organisation being the aggregate of the behaviour of its individuals.
- Rules and procedures: focus on the potential rather than the actual behaviour that can be regulated and guided by rules.
- Dispositions to behave or think the same way: focus on shared individual habits that help sustain the behaviour associated with following rules and procedures.

A common definition of routine is the one suggested by the founders of the evolutionary theory. Winter (1964) defines routine as the pattern of behaviour that is followed repeatedly but is subject to change when conditions change. The characteristics of

pattern and recurrence are at the centre of the concept of routine. Starting with Winter (1964), most of the authors who have defined routine agree on this centrality.

The four different terms used in the literature to denote the concept of pattern are action, activity, behaviour, and interaction (Becker, 2004). Action and activity are used as synonyms in the economics and the business literature. Behaviour is distinguished from actions because it is observable (Becker, 2004). The definition of routine as a pattern of behaviour is thus different from the definition of routine as a pattern of actions or activities. Burns and Scapens (2000) suggest differentiating between routines being the way things are done, and rules being the way things should be done. As noted by Becker (2004), this ambiguity entails distinguishing between routine as behavioural patterns (recurrent interaction) and routine as cognitive regularities (rules). Nelson and Winter (1982) originally proposed that the concept of routine incorporates both a repeated behaviour and dispositions. Their position was later revised putting greater emphasis on routines as capacity for potential, rather than actual behaviour under certain circumstances (Nelson and Winter, 2002). Feldman and Pentland (2003) suggest including both dimensions as they see routine from an ostensive perspective (an idea or a plan) and a performative perspective (actually performing the plan). Hodgson (2003) proposes a separation between the actuality dimension and the potentiality dimension. Routines can be recurrent behavioural patterns or rules and dispositions.

The ontological distinction in the definitions of routine is not at the centre of this research, but emphasis is placed on examining the relationship between the concept of routine and the subject of the research. There is a consensus that the concept of routine includes elements such as actions, recurrent patterns, and multiple actors (Parmigiani and Howard-Grenville, 2011). Routines are generative and dynamic systems, not static objects (Feldman and Pentland, 2003; Hodgson, 2003). Feldman and Pentland (2005) suggest a causal relationship between the ostensive aspect of routine (idea, plan, rule), and the performative aspect (actual implementation). Both aspects are codified following various artefacts that can take many different forms, from written rules to general physical settings (Feldman and Pentland, 2005) as illustrated in Figure 2.9.

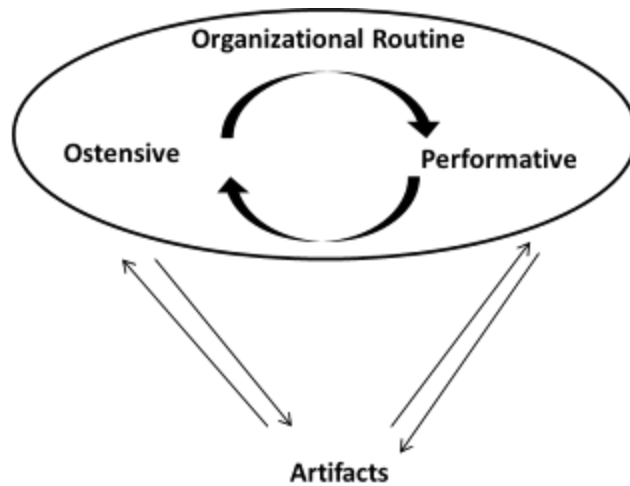


Figure 2.9. Organizational Routines as Generative Systems

The model of Feldman and Pentland (2005) shows that routine can be explored as a dynamic system where there is a causal loop between how things are done (performative) and how they should be done (ostensive). The literature shows that routine can be analysed either from an ostensive or a performative perspective, or both. As the subject of the research is of a dynamic nature, the latter perspective is more convenient to understand how routine influences the relationship between suppliers and agents.

2.6.2 Routine and dynamic capabilities

Organisational routines are proposed to analyse how work is carried out in an organisation and how organisations change to adapt to variations in the economic context (Zollo and Winter, 2002). The concept of routine bridges the evolutionary theory of the firm with the dynamic capability theory. Nelson and Winter (1982) view routine as the skills of an organisation. In the context of a supplier agent relationship, understanding the relationship between activity patterns and behavioural patterns is important in differentiating between patterns that work for the relationship from those working against it.

Routines can drive organisations to do things in an innovative way (Cyert and March, 1963). By reviewing their performance on current activities, organisations can challenge the capabilities deployed to execute these activities. In a normal situation, external and

internal environment factors can lead to breaking certain routines. Different factors may trigger change in actual routines (Bresman, 2013):

- Performance feedback.
- Events that lead to expectations of change in future performance.
- New demands from management.
- Organisational restructuring.

According to evolutionary scholars, what triggers the challenge of current routines is the embedded knowledge and experience inside the organisation. Routines can hence be considered to be containers of knowledge (Nelson and Winter, 1982; Becker, 2004).

The learning process involved in routine change is transformative by nature as it entails understanding how things are done (performative attribute) and how they should be done (ostensive attribute). Organisations that succeed in challenging the routine in response to external or internal changes may be more competitive than others. Routines can be considered as capabilities held within the firm that can either contribute to its evolution (dynamic), or to its regression (strategic).

Routines can be considered at the core of the dynamic capabilities perspective developed by Teece *et al.* (1997). Dynamic capabilities are defined as an organisation's ability to integrate, build, and reconfigure internal and external competences to address a rapidly changing environment (Teece *et al.*, 1997). Routines are referred to by Teece *et al.* (1997) as internal competence and distinctive activities performed by integrated clusters (individuals and groups) using the firm's specific assets (Teece *et al.*, 1997). Zollo and Winter (2002) explicitly used the concept of routine in their definition of dynamic capabilities. A dynamic capability is a learned and stable pattern of collective activity through which the organisation systematically generates and modifies its operating routines in pursuit of improved effectiveness (Zollo and Winter, 2002).

Following these two definitions, the change of current routines is positioned as a transformation process that drives organisations to enhance their capabilities or to introduce new capabilities in order to adapt to changing economic environments.

2.6.3 Evolutionary and transactional approaches

A major contribution by the evolutionary theory to the understanding of the supplier agent relationship is examining the dynamic nature of the relationship or the governance structure. Instead of examining the relationship at a given point in time, the research proposes to use the dynamic capability perspective to explore the evolution of the relationship. Positive routines can be positioned as learning patterns that drive the relationship forward by igniting transformation processes. On the other hand, negative routines can lead to relationship deterioration. The supplier agent problem that engenders self-interested behaviour is one such example.

Following the dynamic perspective, suppliers and agents who succeed in mitigating dyadic risks are able to transform their current routines/competence and adapt them to the changing economic conditions (the move from traditional trade to a modern trade context in the research). Referring to the dynamic capability perspective illustrated in Figure 2.10, the change in current routines entails a collective interaction between individuals involved in the transaction, the organisations concerned (suppliers and agents), and the external environment (retail evolution). The transformation strategy is based on identifying and exploiting new opportunities that are effectively and efficiently embraced; it is about choosing and committing to long term paths of capability development (Tece *et al.*, 1997).

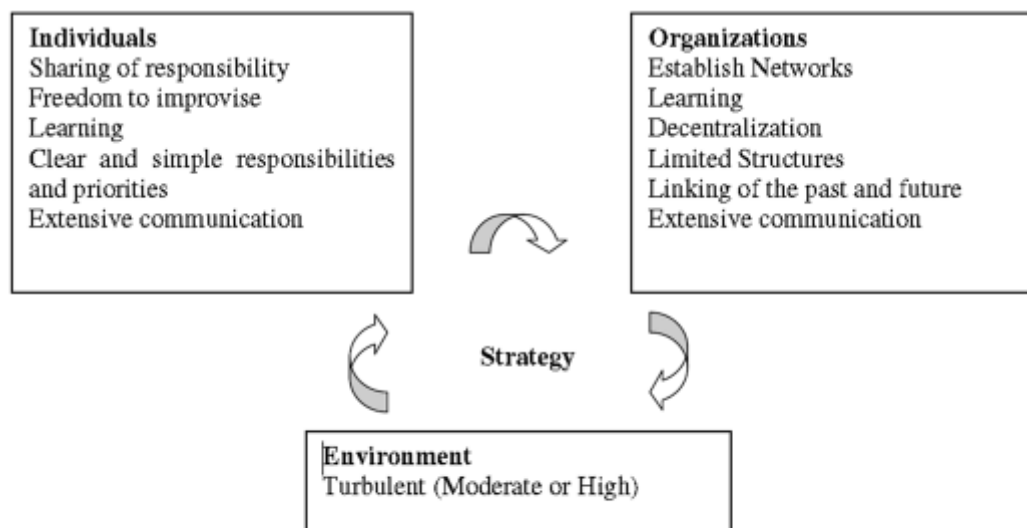


Figure 2.10. A synthesis of different elements of dynamic strategy

If suppliers are convinced that agents are hiding costs, sustaining this negative routine from the agent side in a modern trade context might lead to vertical integration,

following the TCE philosophy. If, on the other hand, agents react to this routine by exploiting their capabilities and by introducing new capabilities, they will not block the evolution of their suppliers. Using the dynamic capability philosophy, routines may extend outside the firm to embrace alliance partners (Teece *et al.*, 1997). Agents can break the opportunism routine by putting the actual cost at parity with the committed cost. The behaviour of the agent cannot be assumed to be static in nature. Agents may accumulate negative routines such as opportunism, as well positive routines such as trust. The governance structure adopted by suppliers might change as a result of the changes in the environment or as a result of changes in the agents' behaviour (from opportunism to trust or from trust to opportunism). The reaction to environmental and inter-organisational risk factors may be explained by an evolution of the governance structure or the model adopted by suppliers and their agents. The agency and TCE theories explain the reaction of suppliers either through an alteration in the contract (AT) or in the governance structures (TCE). Neither of the two theories explains how the model of the agent evolves in response to the behaviour of the suppliers. Answers related to the expected behaviour of the agent are found in the evolutionary perspective.

2.6.4 Expected behaviour of the agent

The two strategies presented by the dynamic capability perspective that can explain the expected behaviour of agents are specialisation and diversification strategies.

The concept of specialisation was associated with the evolution of the firm with the paper of George Stigler. Stigler (1951) suggested that firms start as vertically integrated units when markets are small. With the growth in demand, firms disintegrate and specialise in order to benefit from economies of scale. Despite being criticised by the TCE perspective, Stigler was able to explain the evolution of firms from integrated to disintegrated models in several industries (Agarwal, 1997). Specialisation or disintegration strategies have been attributed to various evolutionary mechanisms. Lamoreaux *et al.* (2003) associate specialisation with the reduction in transportation cost, allowing firms to coordinate activities through long term relationships. Some authors attribute vertical disintegration to the modularisation of products and processes (Langlois, 2003; Schilling, 2000). The evolution of the channel environment, such as the expansion of trade, leads to specialisation (Teece, 2011). Specialisation entails

focus on the core capabilities that can be leveraged by the firm to sustain its competitive advantage.

According to Teece *et al.* (1997), focus and specialisation are defined in terms of distinctive competences or capabilities, not products. By being specialised, firms can benefit from an increasing return to scale with the growth in demand (Klepper, 1997). Competitive advantage is not just a function of how one plays the game; it is also a function of the assets one has to deploy and redeploy in a changing market (Teece *et al.*, 1997).

According to Malone *et al.* (2011) hyper-specialisation often leads to improvements in quality, speed, and cost. Specialisation and hyper-specialisation are both associated with becoming experts in things that are already done by the firm. Agents may decide to let go of certain activities in order to focus on upgrading the activities that make them different and more specialised in terms of quality and cost.

Diversification strategies are mostly adopted when the firm's capabilities are significantly dependent on non-safeguarded income sources, or when the firm is operating in declining market conditions. Diversification is a means by which a firm expands from its core business into other businesses or markets (Shin, 2001). According to the dynamic capability perspective, diversification builds upon or extends existing capabilities, enabling companies to overcome unfavourable market environments (Teece *et al.*, 1997). Diversification is also adopted to capture existing or future market opportunities, or to adapt to new technologies (Chandler, 1977). The costs of diversification strategies are not to be neglected. Porter (1985) notes that diversification can be very expensive, yet there exists a debate in the literature about the benefits of diversification. The key issue for Grant (1988) is not whether diversified firms are more profitable than specialised firms, but whether diversification improves the firm's profitability. Firms need to have the financial capability to seek new capabilities or to extend existing capabilities. Several uncertainties exist with regards to the expected outcomes of diversification, which may drive firms to uncalculated adventures. This explains why high profits from existing activities can be used to finance diversification, as noted by Grant (1988). Burgelman (1983) had an opposing view and believed that high performing firms should continue driving their mainstream activities.

The debate pertaining to the impact of diversification on performance is beyond the scope of this research. The option of diversification can be considered by agents facing non-encouraging market conditions. Agents, who are heavily dependent on suppliers, may focus on building existing capabilities. Specialisation decreases agency costs and increases the likelihood of retaining relationships with suppliers.

2.7 Gaps in the Literature

The research examines an operational management issue that is related to the outsourcing of the sales and distribution activities from one member of the supply chain to another. The research relies on the transactional and relational theories within an evolutionary perspective to explain supply chain risks in the Middle East. Emphasis is given to network type risks, which are referred to as dyadic risks, because the concerned network is composed of two members. The distributor in the Middle East (agent) has a crucial role in the supply chain and is considered to be the main actor in the execution of the sales and distribution activities. The main dyadic risks examined are those arising from issues that are internal and external to the supply chain, as illustrated in Figure 2.11.

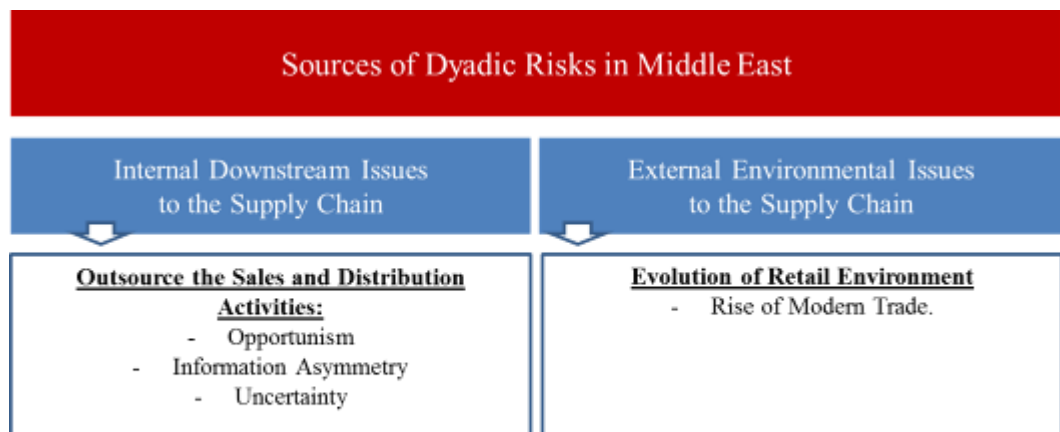


Figure 2.11. Framing Dyadic Risks

As earlier presented in Table 2.2, there is a scarcity of studies exploring supply chain issues, and more specifically dyadic risks in the Middle East, only a few of which take account of an evolutionary environment.

2.7.1 Context of the research

Identifying and mitigating risks affecting supply chain members has come to be at the core of the supply chain discipline, mainly in the period after the year 2000, when the world witnessed many environmental and economic crises with significant implications for supply chain matters. This drove academic and corporate institutions to seek different solutions to optimise their supply chain and mitigate the associated risks. Topics related to the resilience and vulnerability of the supply chain have become prominent (Christopher and Peck, 2004; Peck, 2005; Ponomarov and Holcomb, 2009). The supply chain literature has become involved in the understanding and the identification of all sorts of risks affecting the different supply chain members (Kern *et al.*, 2012; Finch, 2004; Ritchie and Brindley, 2007; Ellegaard, 2008; Faisal *et al.*, 2006; Norrman and Jansson, 2004; Decker, 2013; Wever *et al.*, 2012; Laeequddin *et al.*, 2012; Ding *et al.*, 2013; Harland *et al.*, 2005). There is a scarcity of research exploring outsourcing risks in a controversial and diversified business context like the Middle East, controversial for hosting significantly insecure (Syria, Iraq) but at the same time the richest (KSA) and expeditiously developing (UAE) countries in the world, and diverse since it comprises traditional and fragmented retail channel markets (Iraq, Lebanon, Jordan, Yemen), modern trade markets (UAE, Qatar, Kuwait, Bahrain) and mixed channel markets (KSA). An extensive review of the literature that has examined supply chain issues was presented in Table 2.2. The table has shown bias towards research in Europe and the U.S, very few studies (only three) have been found addressing supply chain issues in the Middle East. Jraisat *et al.* (2013) examined information sharing in the export supply chain. The authors analysed multiple cases of producers and exporters in Jordan; specific transaction, relationship and network drivers of information sharing in the export supply chain have been highlighted. Trust is perceived to be part of the commitment relationship driver, and the absence of formal contracts also appears to create possible opportunistic behaviour (Jraisat *et al.*, 2013). Jacobs and Hall (2007) explored the integration of port actors in the global supply chain. The authors analyse the case of the port of Dubai and identify the various factors (place specific, path dependent, institutional and political) that underlie the territorial embeddedness which either enable or restrict the supply chain related strategies adopted by the port actors. Ahmad and Daghfous (2010) used in-depth interview techniques to examine the concept of knowledge management in service and family business groups in UAE. The author found that the interviewed companies do not show significant

interest in, or focus on, implementing new techniques or methods to create and generate new knowledge. The above three articles do not examine the issues raised by the research, hence justifying the purpose of the study, which explores dyadic risks affecting FMCG supply chain members in the Middle East.

2.7.2 Evolutionary perspective

Only one article (Leavy, 2004, Table 2.2) has been found in the literature addressing the risks and opportunities of outsourcing within a dynamic environment. Leavy (2004) examines different cases of outsourcing strategies (Table 2.6).

Cases	Opportunities of Outsourcing
Nike and Dell	Focus corporate resources on activities where clear differentiation can be developed and outsourcing much of the rest. Nike: Focus on product leadership. Dell: Focus on operational Excellence
Nokia and Nortel	Offer companies an opportunity to grow in market presence without needing to expand in organizational size and bureaucracy.
Ikea, Canon, Ryanair	Key element of disruptive innovation: develop lower-cost/higher asset-productivity model Ikea: Entry to retailing Canon: Photocopying market Ryanair: European airline industry
IBM	Strategic repositioning. Integrating services in its business model: IBM became an extensive provider of outsourcing services to others. IBM services moved from \$9.2bn in 1992 to \$30bn in 2002

Table 2.6. Opportunities of Outsourcing

The author shows that outsourcing helps companies focus on their core capabilities, take inefficiencies out of their system, and expand their business models. Such strategies resulted in Nike's turnover increasing to US\$7.8 billion, with a 39% gross margin (Leavy, 2004). The two main risks associated with outsourcing are the risk of losing skills essential to compete for the future, as well as taking the outsourcing decision at a suitable time in line with the industry's evolution (Leavy, 2004):

- Losing skills and capabilities: outsourcing may meet short term opportunities, but organisations need to consider long term implications by retaining skills and know-how required to exploit future opportunities.
- Outsourcing and industry evolution: companies need to assess the benefits of outsourcing to ensure alignment with the industry's evolution in terms of timing and positioning in the value chain, taking into account that such decisions may change over time.

Given the dynamic nature of the institutional environment, a model that seemed justifiable in the past may no longer be viable in the future. Suppliers may find it optimal to outsource the sales and distribution activities in one country, but taking such a decision in another country might not conform to the evolution in the industry, and might put suppliers in a disadvantaged position in terms of capabilities and scale, as noted by Leavy (2004). Integrating the evolutionary approach helps in understanding how the model of suppliers and distributors is evolving, or will evolve, to mitigate dyadic risks, which is of academic and practical importance to understand supplier distributor relationships in the Middle East. The only article that has examined the notion of agents and distributors in the Middle East dates from 1979.

Through interviews conducted with 30 industrial companies, Dunn (1979) provided guidelines for managing distributors in the Middle East at a time when Middle Eastern markets were dominated by traditional trade channels and positioned as export markets by suppliers. The division of responsibilities between suppliers and distributors back in 1979 is presented in Table 2.7.

Best performed by local agent or distributor	Best performed by company itself (Principal)
Spotting sales opportunities	Market research/sales forecasting
Pinpointing purchase influencers	Planning and coordinating detailed marketing programs
Using personal connections with customers	Support on technical questions
Importing and physical distribution	Pricing
	Formal sales presentations

Table 2.7. Division of Marketing Responsibilities

Since 1979, several changes have taken place, including the following:

- **Channel dynamics:** some of the key markets that were traditional in 1979 have since been transformed to modern trade markets. Examples include Kuwait, UAE, Qatar, Bahrain, KSA, Lebanon, Jordan.
- **Proximity to market:** at the time of the study, suppliers were managing their operations from their home countries; Unilever from the UK, P&G from the USA, Danone from France, Mars from the USA, Kraft from the USA, and Nestle from Switzerland. Since then, all these suppliers have become physically present in the Middle Eastern markets.

- Distributor model: at the time of the study, distributors were big wholesalers with the required financial capabilities and market networks. Suppliers used to export their products to these distributors without worrying about financial risks. These distributors have evolved their models today and have become part of big conglomerates.
- Size of the Middle East: at the time of the study, Europe and U.S markets contributed the biggest share of the suppliers' overall business. Today, with the rise in emergent economies, regions like the Middle East and Africa have become important growth contributors for many FMCG suppliers.
- Political and economic environment: In 1979, the only insecure regions in the Middle East were Palestine and Lebanon; today other countries like Iraq and Syria have been added. UAE today is among the fastest developing economies in the world.

The research of Dunn (1979) was not based on theoretical grounds, but rather on in-depth interviews. This research bridges this gap by addressing the models of suppliers and distributors in 2014 in association with the dyadic risks affecting them. By integrating the evolutionary perspective, the research explores the issue while taking into account the dynamic nature of the external environment, as suggested by Leavy (2004).

2.7.3 Agency law in the Middle East

Any foreign company wishing to operate or open a subsidiary in any country in the Middle East has to follow the rules and regulations set by the particular country (Homsy, 1983). In general, a local agent is chosen by the foreign company to handle its businesses in the corresponding country. An agent is someone who lobbies to obtain a particular contract on behalf of the principal in return for a commission or fee. Choosing the right agent is essential due to his role in achieving success in that region. The role of agents is not solely limited to promoting the sales of their principal's products, but also includes other functions like procurement of visas and customs clearances, assistance in contract negotiations, and local government relations (Homsy, 1983).

Most Arab countries have proclaimed special legislation for commercial agencies and

described qualification requirements, like the need to register the commercial agency agreement with a special registrar at the Ministry of Commerce within a short period after its execution. By law, any commercial agent involved in a business with an unregistered commercial agency agreement (or any other violation of requirements) is breaking the local commercial agency law (Homsy, 1983). In such a situation, the agent or the foreign company is subject to a fine or even the closing of the business. However, this is not applicable in all Arab countries, since not all governmental ministries track and penalise, and also due to the fact that the agent might have fulfilled other requirements (like being a local agent) besides the registration. Moreover, the law does not punish a foreign principal who works through a local commercial agent under an unregistered agreement; rather it punishes the agent himself. For governments in the Middle East, the necessity to appoint or to partner with a local agent is given priority over the need to register the agency agreement.

Local customers (local government ministries and public sector departments) will not perform any transactions with commercial agents who are not registered under the local commercial law. An example of where this applies is KSA. However, these procedures are not strictly enforced and the foreign company is not likely to be affected. Another disadvantage of unregistered agreements is that no claims of any nature will be heard from the agent according to Article 3 in the UAE commercial agency law (Homsy, 1983), meaning any problem that may arise between the agent and the principal will be dismissed.

The agency laws in countries in the Middle East such as Egypt, Jordan, Kuwait, Saudi Arabia and the UAE share some characteristics; private enterprise is encouraged and foreign suppliers must use agents in practically all cases (Homsy, 1983). In general, these countries restrict agency activities to their own nationals in order to protect oil generated capital and encourage local employment. Agents are regulated by mandatory registration procedures, and they are protected against sudden or random termination of the agreement by their foreign principals.

Legal experts confirm that successful relationships between foreign principals or suppliers and their respective agents or suppliers in the Arab world must be based not only on familiarity with the laws of the particular country, but also on knowledge of the

business backgrounds in that region and, moreover, the principal must continuously cultivate good personal relations with his local agent (Homsy, 1983). Even if the formal contract clarifies the responsibilities of both parties to the agency relationships (performance based objectives), the behaviour of the parties and the interest they show to drive the relationship may be more important.

With most of the Middle Eastern countries joining the World Trade Organisation, the governments of these countries are obliged to become less vigilant when it comes to the appointment of local agents (Samba, 2006).

This transformation, driven by the interest of Middle Eastern governments in becoming more integrated in the international trading community by giving greater access to foreign companies to their markets, is putting local operators such as distributors at risk. The possibility of exempting suppliers from legal obligations to partner with local agents or partners is bound to encourage suppliers to seek further independence. Relational contracting may be positioned as the only option available for distributors to sustain historically formed agency relationships and reduce dependency risks. If the current research does not consider the relational perspective, it will not only be criticised by the authors who proposed integrating the role of trust in TCE and the agency theories, but also by practitioners who may also comment on the embeddedness of relational dimensions in transactional relationships in the Middle East.

2.7.4 Relational perspective

This research also addresses a third gap associated with the integration of the relational perspective in the transactional one. Although this gap is essential to authors who have criticised the TCE, this research considers that supply chain risk issues cannot be explored without taking into account the relational perspective. This assumption is not only supported by the growing importance of partnership relationships in the supply chain (Gottfredson *et al.*, 2005), but also by the latest research trends in TCE and supply chain management (Bourlakis and Melewar, 2011). Table 2.8 provides a summary of the key studies that have used the TCE to understand supply chain issues. The table shows that many authors have accounted for the role of collaboration and trust when examining supply chain risks. Had this research not integrated the relational

perspective, it would have been condemned as incomplete by supply chain theorists. As explored by the agency theory, opportunism is curbed through formal contracting. However, formal contracting is not sufficient to mitigate opportunism as viewed by relationship marketing theorists (Rindfleisch and Moorman, 2003; Sivadas and Dwyer, 2000). The research examines the mitigation of risks through formal and informal contracting, noting that the latter mechanism is becoming more dominant in today's hypercompetitive context and the shift to relationship economies (Langlois, 2003; Lamoreaux *et al.*, 2003). Table 2.8 presents an overview of the literature that explores supply chain issues from a TCE angle, and shows that the transactional approach provides limited understanding of supply chain risks as it does not take into account the notions of collaboration and trust. Because the research takes into account the dynamic nature of the transaction and the evolution of suppliers' and distributor's models, it has become more critical to integrate the relational perspective, since relationships evolve over time, and trust is built up over time. Building on the arguments proposed in Section 2.7.2, suppliers may have gained experience and know-how in gaining their distributors' trust (and vice versa for distributors) between 1979 and 2014. Some relationships in 2014 may be the outcome of the economic and non-economic rewards sacrificed during the period 1979-2014. This research positions the relational and evolutionary perspective as one entity that can only be explored together when understanding dyadic risks. There is a scarcity of research that explores supply chain risks from a wider theoretical angle: relational, evolutionary and transactional perspectives.

The Authors	Issues	Methodology	Activity	Findings	TCE	Collaboration and Trust	Middle East Countries
Xu and Beamon (2006)	Supply chain coordination	Modeling	not applicable	Use the TCE to develop a framework for selecting coordination mechanisms in a supply chain. This framework is based on the critical characteristics of the supply chain in question; in particular, the relative costs of physical flow and transactions (including coordination and risk costs) and the operating environment of the organization.	Yes	Yes	No
Blome and Schoenherr (2011)	Supply chain risk management	Case studies	European Enterprises (8)	Use the TCE to understand how European companies manage supply chain risks in economic crisis. The authors show that manufacturing and service firms differ in their approaches toward SCRM in financial crisis situations.	Yes	No	No
Bourlakis and Bourlakis (2005)	Evolutionary process of retail network	Conceptualization and secondary data	UK food retail chain	The authors develop a new relationship framework based on the perceptions that both parties can possess (retail chain and retailer-third-party) in relation to logistics asset specificity and the asset specificity element of transaction costs theory is related to network theory. If asset specific transaction costs are perceived as generally low and not complex for both the buyer and the supplier the authors do not find the need for network formation.	Yes	Yes	No
Bourlakis and Melewar (2011)	Marketing perspectives of logistics outsourcing	Conceptualization	not applicable	Following a review of existing literature the authors present a set of papers that use the TCE to examine logistics and distribution issues.	Yes	Yes	No
Aertsen (1993)	In-house and contract distribution	Conceptualization	Physical distribution	The article supports the use of TCE to understand make or buy decisions in logistics. Key concepts such as asset specificity and performance measurement help in examining logistical issues associated to in-house vs contracting models.	Yes	No	No
Cao and Zhang (2011)	Supply chain collaboration	Mail survey (N=211)	Furniture and Fixtures Industrial Products and Machinery Electronic Equipment Transportation Equipment	The study has identified a set of seven interconnecting dimensions that make up effective supply chain collaboration: information sharing, goal congruence, decision synchronization, incentive alignment, resource sharing, collaborative communication, and joint knowledge creation. Benefits of supply chain collaboration will be realized when all parties in the supply chain from suppliers to customers cooperating together.	Yes	Yes	No
Rinehart et al.(2004)	Long-term, non-ownership types of relationships	Convenience sample (N=155)	North American manufacturing firms	The authors identify the existence of seven different types of supplier – customer relationships based on analysis of three behavioural constructs measured at both the personal and organizational levels (trust, interaction frequency, and commitment). The research provides managers and academics with more specific criteria for studying and interpreting specific relationships based on transactional and relational factors.	Yes	Yes	No
Raised et al.(2013)	Information sharing in export supply chain	Case study	Jordan (producers and exporters)	The study highlights specific transaction, relationship and network drivers of information sharing in the export supply chain. Trust is perceived to be part of the commitment relationship driver and the absence of formal contracts also seems to create possible opportunistic behaviour in the examined agro-food ESC and, in turn, this drives information sharing.	Yes	Yes	Yes
Seal et al.(1999)	Role of management accounting building strategic partnership	Action research	American multinational (Sub-assembly technological materials)	The authors shed light on the characteristics of an evolving obligational contract as well as operationalizing some of the transaction costs:1-the role of personal relations and trust in obligational contracting; 2- the importance of cost data and the possibilities of information sharing; and 3- the organizational aspects of partnership formation.	Yes	No	No
Bourlakis and Bourlakis (2006)	Integration of retailer's information technology	Case study	Greek food retailers	The authors develop a proposition to understand the integration of the IT strategy with the logistics strategy in a food multiple retailer's strategic planning. The study shows that the integration process between the logistics and the IT functions seem to work in a parallel fashion. Domestic firms are disadvantaged in terms of operational efficiency compared to the multinationals, as they find themselves to be in the initial stage of the integration process.	Yes	No	No

Table 2.8. Literature Review-Supply Chain Issues, TCE and Trust (1/2)

The Authors	Issues	Methodology	Activity	Findings	TCE	Collaboration and Trust	Middle East Countries
Wever et al.(2012)	Supply and demand side risks	Modeling	Three different supply chain models	Develop different supply chain wide TCE models that show that when supply chain actors follow the recommendations from the traditional TCE model regarding the use of contracts, it may increase rather than decrease their exposure to transaction risks. A main difference of the new model is that it recognizes the interdependence between supply chain transactions unlike the traditional TCE model.	Yes	No	No
Handfield and Bechtel (2002)	Responsiveness in the supply chain	Mail survey (N=500 purchasing managers)	North American manufacturing firms	Develop a model that shows that buyer-dependence, supplier human asset investments, and trust are all positively associated with improved supply chain responsiveness (defined as supplier's ability to quickly respond to the buying party's needs). The analysis of the multiple cases suggests that even in cases when buyers do not have a great deal of control over their suppliers, working to build trust within the relationship can improve supplier responsiveness.	Yes	Yes	No
Whipple et al.(2010)	Collaboration in supply chain	Survey (N=396 academicians and practitioners)	U.S (various industries)	Results show that collaborative relationships offer higher levels of satisfaction and performance than transactional relationships. Buyers perceive two types of satisfaction: satisfaction with the relationship and satisfaction with the results. Performance was also rated higher for collaborative relationships in comparison to transactional relationships. The relationship antecedents are significantly higher for collaborative relationships than for transactional relationships (Greater level of commitment, higher trust, more dedicated resources, greater sharing of rewards and costs, higher communication and information sharing).	Yes	Yes	No
Ding et al.(2013)	Transaction risks and partner selection criteria	Survey (N=61)	Dutch industries (outsourcing to franchising, joint R&D, joint production and joint ventures)	The study shows that when confronted with greater risk from the transactional context, firms place more emphasis on trust-based and reputation-based selection criteria for partner choice and develop more complex contracts to manage the collaboration. The results confirm that partner selection mediates the effects of transaction characteristics on contract complexity. The research also find that when the transaction scope is broad and when firms have had prior ties with the partner, they place greater weight on common culture for partner selection.	Yes	Yes	No
Harland et al.(2005)	Risks and benefits of outsourcing	Delphi method (N=25)	UK (Public and Private sector industries)	The study proposes that a more holistic view of outsourcing is needed, linking local, organizational issues with sector and national level actions and outcomes. Issues of policy relating to outsourcing are recognized and viewed as relevant. Knowledge is also lacking inside organizations on moving from a "doing" to an "outsourcing" operation, with the associated creation, management and assessment of collaborative outsource relationships and contracts.	Yes	Yes	No
Frazier (1999)	Channel integration	Literature review	Not applicable	Following an extensive literature review the author provides a perspective on how research on the organization and management of distribution channels should proceed in the future to promote the most progress.	Yes	No	No
Ellram et al.(2008)	Costs and Risks of outsourcing	Case studies (10 key informants)	Procurement (offshore companies)	The study shows that, the transaction cost economics theory is able to explain when and how firms offshore outsource services. High transactions volumes are associated with insourcing. Organizations avoid offshore outsourcing services in volatile environment. The research does not agree with TCE when it comes to the outsource of the assets of low specificity. The firms studied did not outsource offshore services with high physical asset specificity, they did outsource services where high levels of human asset specificity were developed.	Yes	No	No
Wallenburg (2009)	Customer loyalty-LSPs	Survey (N=298)	Logistics Service Providers	The study shows that proactive cost improvement and proactive performance improvement are both strong drivers of all core dimensions of loyalty (retention, extension, and referrals). In relationships that are close to market exchange, proactive improvement is a strong driver of customer loyalty, but this effect is attenuated when the services rendered are complex and contracting periods long. Cost improvements, and thus efficiency, is the main driver of customer loyalty when the outsourced services are simple and their contracting period rather short. When the contracting period lengthens customer loyalty is primarily driven by proactive performance improvement, while cost improvement only plays a subordinate role.	Yes	Yes	No
Ettlie and Sethuraman (2002)	Issues behind global sourcing	Survey (N=600)	U.S Durable Goods Manufacturers	The study shows that the resources based view (RBV) and the transaction cost economics (TCE) are relevant avenues to understand global sourcing. Firms use global supply to enhance and exploit technical capabilities, consistent with the resource based view of the firm. Manufacturing firms also reduce transaction costs by either sourcing locally or freezing production schedule.	Yes	NO	No
Kamann and van Nieuilande (2010)	Outsourcing to low-cost countries	Case study and action research	Suppliers from different countries	The authors present a method to structure the decision about which products to source and from which countries around the following questions: 1-Which inputs should be selected for outsourcing to low-cost countries? 2- Which countries are preferred? 3- Should the company deal directly with suppliers in low-cost countries or through a local distributor or agent?	Yes	Yes	No

Table 2.8. Literature Review-Supply Chain Issues, TCE and Trust (2/2)

2.8 Research Propositions

The literature review shows that the agency and TCE theories are relevant theoretical avenues to understand the sources and consequences of inter-organisational risks affecting suppliers and agents. Both theories provide clear, but not complete, explanations of risk mitigation strategies. Formal contracting, and vertical integration in case of contract failure, may provide an understanding of the behaviour of the supplier assuming opportunism, uncertainty, information asymmetry, and bounded rationality. However, these assumptions cannot be treated as universally accepted facts of human behaviour. Organisations may consider building relationships and developing trust to resolve dyadic risk issues, especially in socially driven contexts like the Middle East. Agency theory scholars are becoming more open towards the need to consider the role of trust in agency theory research (Fayezi *et al.*, 2012). TCE does not reject the antagonistic relationship between trust and opportunism. Organisations operate in dynamic environments. Suppliers may consider altering their governance structure, not only to mitigate inter-organisational risks, but also as a response to changes in the environment. The same applies to agents, who might adapt their behaviour to the expected behaviour of suppliers. By considering the evolutionary approach, the research explores *ex ante* and *ex post* phenomena. The transactional approach has been criticised by evolutionary theorists for focusing on static cases. The dynamic capability theory is explored in the literature review as it broadens the notion of asset specificity (Winter, 1988; Klein, 1988).

Failure to address supply chain risks may lead to further vulnerability across the supply chain (Svensson, 2000). As this research strictly focuses on two members of the supply chain (supplier and distributor), the inter-organisational risks are referred to as dyadic risks. The term supplier refers to multinational FMCG manufacturers and includes companies like P&G, Nestle, Mars, and Kraft. Distributors are local companies exclusively responsible for the sales and distribution of the suppliers' brands in local markets. For the purpose of this research, dyadic risks caused by outsourcing the sales and distribution activities are defined for suppliers as the impact of behavioural factors such as opportunism, and informational asymmetry on their outcome and behaviour based performance. In other words, an inability to control performance may block suppliers from driving their performance (growth acceleration, cost optimisation), which may put them at a disadvantage relative to other suppliers who better control their

performance (outcome and behaviour based). For distributors, dyadic risks are defined as the uncertainties (probability of unexpected events occurring) caused by their dependency on suppliers. Since the opportunistic behaviour is embedded in human agents, the research assumes that suppliers might also act opportunistically by not taking into account the interests of distributors. Table 2.9 presents the various terminologies used for each dyadic member. Supplier agent relationships are referred to in this research as supplier-distributor relationships, and a supplier agent problem (AT) as a supplier distributor problem. Table 2.9 presents the dyadic members explored by the research.

Supplier	Distributor
Manufacturer	Agent
Principal	Buyer
Seller	Exclusive Wholesaler

Table 2.9. Dyadic Members

To further understand the sources of dyadic risks and the various mitigation strategies adopted, several propositions are developed based on TCE and agency theories. Trust between dyadic members is also examined given its role in bridging the gap between the transactional and the relationship approaches and for its contribution to building collaborative supply chain relationships (Whipple et al., 2010). To address the gaps highlighted earlier, the propositions are explored in relationship with the evolution of the institutional environment (retail evolution) across three contexts in the Middle East: Iraq (traditional trade dominated market), KSA (mixed channel market), and UAE (modern trade dominated market). This will help in understanding whether the mitigation strategies vary with the evolution in the context.

The propositions raised by the research do not reject the transactional perspective, but aim at enriching it with the relational and the evolutionary perspectives. Although the transactional approach has been subject to various critiques, it has nevertheless been widely recognised by several advocates mainly in the supply chain discipline, as presented earlier in Tables 2.2 and 2.8.

P1: FMCG suppliers in the Middle East who outsource sales and distribution activities to distributors are negatively affected by dyadic risks.

P2: FMCG distributors in the Middle East are negatively affected by dyadic risks.

P3: FMCG suppliers in the Middle East mitigate dyadic risks by deploying a formal control system with distributors.

P4: FMCG suppliers in the Middle East mitigate dyadic risks by partially integrating their sales and distribution activities with their distributors.

P5: FMCG suppliers in the Middle East mitigate dyadic risks by vertically integrating their sales and distribution activities without considering the role of their distributors.

P6: The development of trust between suppliers and distributors contributes to mitigating dyadic risks.

P7: FMCG distributors in the Middle East mitigate dyadic risks through A- specialisation and B- diversification strategies.

1- How do FMCG suppliers and distributors in the Middle East perceive dyadic risks affecting their relationships? P1, P2

2- How are FMCG suppliers in the Middle East mitigating dyadic risks? P3, P4, P5

3- What role does trust play in dyadic relationships in the Middle East? P6

4- How are FMCG distributors in the Middle East mitigating dyadic risks? P7

Table 2.10 illustrates the association between the propositions that will be explored, and the relevant theories discussed in the literature review. It is important to highlight that many authors in operation management are now focusing on theory testing, rather than theory building, to examine supply chain issues (Ettlie and Sethuraman, 2002; Ketchen and Hult, 2007; McNally and Griffin, 2004; Squire *et al.*, 2006; Zsidisin and Ellram, 2003; Holcomb and Hitt, 2007).

Theory	Main Authors	Theoretical Issues	Contribution of Theory	Themes to be explored for Middle East	Research Propositions	Context: Middle East Countries		
						Iraq	KSA	UAE
Agency Theory	Eisenhardt (1985;1989), Alchian and Demsetz (1972), Jensen and Meckling (1976).	Sources and Consequences of Dyadic Risks: - Sources; Opportunism Information Asymmetry Uncertainty	Principal agent relationship should reflect efficient organization of information and risk bearing costs. AT is considered together with TCE as a contractual theory of the firm.	Dyadic risks associated with outsourcing the sales and distribution activities: 1-Sources of Dyadic Risks for suppliers: Opportunism: Variance between actual and committed terms Information Asymmetry Consequences of Dyadic Risks for suppliers:	P1 FMCG suppliers in the Middle East who outsource sales and distribution activities to distributors are negatively affected by dyadic risks.	✓	✓	✓
Transaction Cost Economics	Williamson (1975;1979;1981; 1985).	Bounded rationality Frequency Consequences: Inability to control outcome and behaviour based performance	In case of high asset specificity and uncertainty firms mitigate transaction cost hazard by formal contracting and integrated governance structure. Integrated structures are viewed as the optimal control mechanisms.	Control outcome and behavior based performance: Inability to accelerate growth and optimize costs. 2-Sources of Dyadic Risks for Distributors: Dependency on suppliers Consequences of Dyadic Risks for Distributors: Uncertainty.	P2 FMCG distributors in the Middle East are negatively affected by dyadic risks.	✓	✓	✓
Dyadic Risks Mitigation Strategies (suppliers): Transactional Approach			AT: Deployment of control system	Fixed price contract Cost plus contract Information system	P3 FMCG suppliers in the Middle East mitigate dyadic risks by deploying a formal control system with distributors.	✓	✓	✓
			TCE: Integration of Assets of High Specificity. PIM: Partial Integrated Model VIM: Vertical Integrated Model	Integration of Key Account Managers Integration of Regional Managers Process and System Integration	P4 FMCG suppliers in the Middle East mitigate dyadic risks by partially integrating their sales and distribution activities with their distributors.	✓	✓	✓
				Add to above: Integrate Sales Execution Integrate Invoicing	P5 FMCG suppliers in the Middle East mitigate dyadic risks by vertically integrating their sales and distribution activities without considering the role of their distributors.	✓	✓	✓
Dyadic Risks Mitigation Strategies (suppliers & Distributors): Relational Approach (Macneil, 1974; 1980; 1983; 1987)			Trust substitute formal contract and is essential for dyadic risk mitigation across the supply chain:	Trust development between suppliers and distributors: Fair margins Investments in human assets Investments in physical assets Investments in systems Transparency	P6 The development of trust between suppliers and distributors contributes to mitigating dyadic risks.	✓	✓	✓
Dyadic Risks Mitigation Strategies (Distributors): Evolutionary Approach (Teece et al.,1997; Nelson and Winter, 1982; Nelson and Winter, 2002)			Addresses how resources are developed and renewed to adapt to a rapidly changing environment.	Specialization and diversification strategies	P7 FMCG distributors in the Middle East mitigate dyadic risks through A- specialization and B- diversification strategies.	✓	✓	✓

Table 2.11 summarises the gaps presented earlier in association with the propositions that this research intends to explore.

Gaps	Research Questions	Propositions
<ul style="list-style-type: none"> - The literature is rich in understanding supply chain risks but there is a scarcity of research exploring dyadic risks (sources and consequences) in a controversial and diversified business context like the Middle East. - Should dyadic risks be given a strategic importance for FMCG companies (supplier and distributors) in the Middle East or it is enough to acknowledge their existence: no academic research has been found in the literature that provide clarifying answers. - Supply chain risks have been explored in single or homogeneous contexts but there is a scarcity of studies addressing these risks in evolutionary environments. - The literature that used the TCE and the AT to understand supply chain dyadic risks has focused on one member of the dyad (in most of the cases supplier or principal). Understanding the implications of dyadic risks on both members of the dyad helps in comprehending how dyadic members can collaborate together to mitigate them. 	<p>1 How do FMCG suppliers and distributors in the Middle East perceive dyadic risks affecting their relationships?</p>	<p>1 FMCG suppliers in the Middle East who outsource sales and distribution activities to distributors are negatively affected by dyadic risks.</p> <p>2 FMCG distributors in the Middle East are negatively affected by dyadic risks.</p>
<ul style="list-style-type: none"> - Governance structure are dynamic and evolve with the evolution of the institutional environment: The transactional approach considers that governance structures are static and do not consider learning and adaptation processes in changing environments. - Much emphasis is given in the literature on hierarchal and market structure there is a little understanding on hybrid structures specifically in the FMCG industry: Hybrid governance structures (such as partial integration) can be presented as alternative forms of governance structures and can provide good example of interfere collaboration. - The transactional approach provides strong evidences on the costs of market transactions but many hidden costs can also be associated to hierarchal transactions. These hidden costs may affect make or buy decision, favoring markets or other forms of governance structures over hierarchal forms. - No evidences have been found of using the TCE and the AT to understand dyadic risk mitigation strategies in dynamic context like the Middle East: this exploration may provide evidences of how the industry is evolving and form of governance will dominate the future of supplier distributor relationship in the Middle East. 	<p>2 How are FMCG suppliers in the Middle East mitigating dyadic risks?</p>	<p>3 FMCG suppliers in the Middle East mitigate dyadic risks by deploying a formal control system with distributors.</p> <p>4 FMCG suppliers in the Middle East mitigate dyadic risks by partially integrating their sales and distribution activities with their distributors.</p> <p>5 FMCG suppliers in the Middle East mitigate dyadic risks by vertically integrating their sales and distribution activities without considering the role of their distributors.</p>
<ul style="list-style-type: none"> -TCE and AT give little importance to the role of trust in social exchange. - Dyadic members may act opportunistically but they may also orient their resources to the mutual development of trust. - High levels of opportunism may lead to relationship failure as much as high levels of trust may lead to relationship success. - Trust proved to play an important role when exploring supply chain collaboration issues. - Trust may also play an important role in a cultural context like the Middle East that highly relies on social relationships. - No evidence has been found in the literature exploring the role of trust in dyadic relationship in the Middle East. - The understanding of the role of trust does not refute the TCE and AT assumptions but compliments them. - This understanding may also provide important evidences on the cultural boundedness of TCE. 	<p>3 What role does trust play in dyadic relationships in the Middle East?</p>	<p>6 The development of trust between FMCG suppliers and distributors in the Middle East contributes to mitigating dyadic risks.</p>
<ul style="list-style-type: none"> - The transactional approach focuses on the DRM strategy of one member of the dyad (supplier or principal), little attention is given to the reaction of the other dyadic member (distributors or agent): Understanding the behaviour of the distributor helps in further clarifying the role of the relational perspective, given the socio cultural profile of distributors in the Middle East. - Only one study is found in the literature (published in 1979) that provide basic apprehensions of distributors in the Middle East: The reaction of distributors to dyadic risks sheds the light on the evolution of distributors in the Middle East and helps in understanding whether distributors has succeeded in 2014 in reducing the dependency level they had on suppliers back in 1979. 	<p>4 How are FMCG distributors in the Middle East mitigating dyadic risks?</p>	<p>7 FMCG distributors in the Middle East mitigate dyadic risks through: A-Specialization and /or B- Diversification strategies.</p>

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Table 2.11. Summary of Gaps, Research Questions and Propositions

Chapter 3. Research Methodology

This chapter aims to discuss the methodologies adopted by the research and explain the methods used to gather and analyse data. The chapter starts with an overview of the research philosophy (Section 3.1.), and then focuses on the epistemological stance of the researcher (Section 3.2), which will justify the methodology chosen for the research (Section 3.3). The methods to gather and analyse the data are then discussed (Section 3.4) followed by the foreseen practical issues resulting from the chosen methodology (Section 3.5). The chapter concludes with the ethical considerations adopted by the researcher (Section 3.6).

3.1 Research Philosophy

The process of producing and verifying knowledge is influenced by the epistemological position of the researcher, which is affected by the nature of the study under investigation. Following this position, the appropriate methodology is chosen and the methods of collecting and analysing the data are followed. Knowledge is produced and verified through a sequential process universally followed by natural and social science researchers. The key elements of a research process, adapted from Saunders *et al.* (2000), are illustrated in Figure 3.1 below.

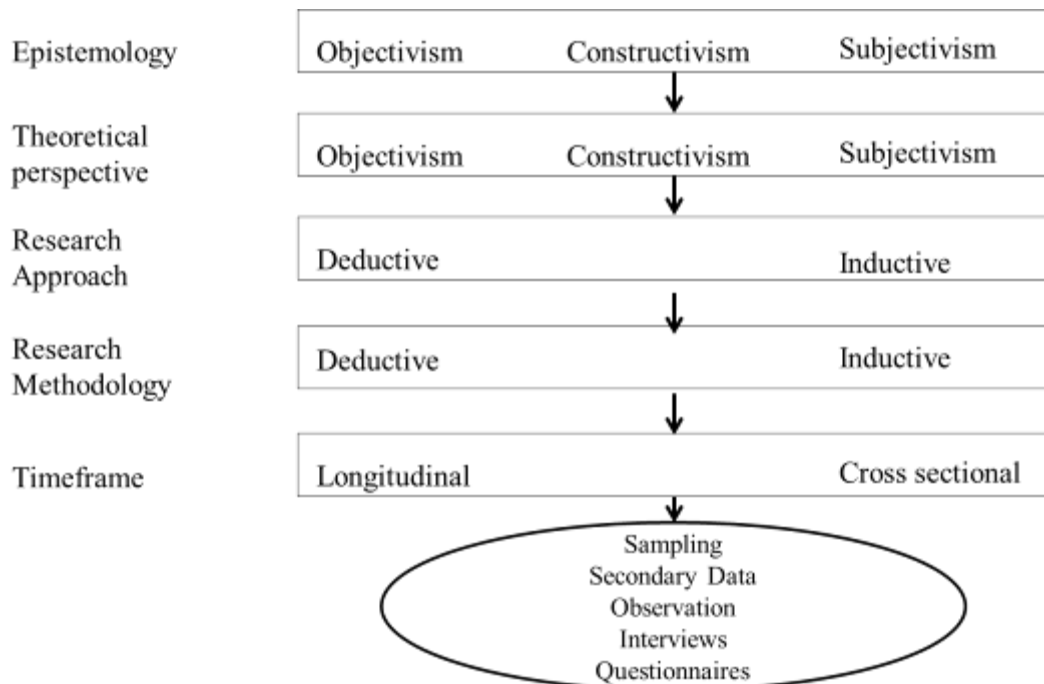


Figure 3.1. Elements of a Research Process

Crotty (1998) defines the meaning of each element of the research process as follows:

- Epistemology: the theory of knowledge that defines what kind of knowledge is possible and legitimate.
- Theoretical perspective: the philosophical stance detailing the methodology, and thus providing a context for the process and grounding its logic and criteria.
- Methodology: the strategy, plan of action, process, or design lying behind the choice and use of particular methods and linking the choice and use of methods to the desired outcomes.
- Methods: the techniques used to gather and analyse data related to a research question or hypothesis.

The philosophical stance adopted by the research is the starting point of the research process. The nature of the research and the outcomes that it intends to achieve determine the epistemological position adopted. Such a position is fundamental, as it helps in clarifying the research design and, in some cases, it might also help the researcher identify new designs outside his own experience (Easterby-Smith *et al.*, 2002).

Epistemology is related to the nature, development, and limitations of knowledge (Saunders *et al.*, 2000). Epistemology concentrates on the process by which knowledge is acquired and validated (Gall *et al.*, 1996). It is directly concerned with questions such as what it means to know, and how reality can be known. The common epistemological positions are objectivism, constructionism, and subjectivism (Crotty, 1998). The differences between objectivism and constructionism are presented in the sections below:

3.1.1 Objectivism

Objectivism describes the existence of social entities in realities that are external to the concerned social actors (Saunders *et al.*, 2000). Objectivists hold that entities carry intrinsic meaning within them as objects, and that the objective truth is measurable when approached the right way (Crotty, 1998). The main perspectives that stem from objectivism are positivism and post positivism.

The positivist perspective is at the extreme end of the objectivist epistemology. Positivists believe that reality is not created or constructed, but can be directly measured through observations and scientific experimentations, and can be represented through objects and symbols.

Human behaviour can be explained and predicted in terms of cause and effect (May, 1997). Positivists clearly distinguish between facts and values; it is possible to measure social behaviour independently of the context, and social phenomena are 'things' that can be viewed objectively (Hughes and Sharrock, 1997). Positivist research is grounded in the assumption that features of the social environment constitute an independent reality and are relatively constant across time and settings (Gall *et al.*, 1996). Positivists defend the existence of a single reality that can be tested (Easterby-Smith *et al.*, 2002). Their aim is to generate a universal law that explains this reality and that reveals the objective truth (Girod-Seville and Perret, 2001). These laws of cause and effect become universal when they are generalised on a wider population base, which is a major objective of positivist researchers. Knowledge is developed by collecting numerical data on observable behaviour of samples and then subjecting this data to numerical analysis (Gall *et al.*, 1996). For this reason, positivists use quantitative methods such as observations, experiments, and surveys to gather and collect data. Hypotheses are empirically tested through complicated statistical analysis techniques. They consequently follow a deductive reasoning approach that starts from a universal view, and then focuses on a few hypotheses generated for testing (Babbie, 2005), which at a later stage are either confirmed, refuted, or modified. The most important principle that governs the positivist approach is the operationalisation of a concept in order to make it visible for experimentation. A positivist researcher is not concerned with the context of the research; social reality is seen as relatively constant across time and settings (Gall *et al.*, 1996). The researcher is independent, detached, and maintains a distance from the object of the research (Carson *et al.*, 2001).

Post positivism was introduced to address the main critiques of positivism (Kuhn, 1970). The key points addressed by post positivists are related to the nature of reality, the universality of laws, and the role of the researcher. The arguments presented against those points are the founding tenets of the post-positivist school of thought.

Positivists believe in what is observable and what is available to the senses. With the evolution of unobservable science, especially molecules, atoms, and electrons, the founding positivist assumption of the observable no longer applied (Kuhn, 1970). Although positivist researchers have revisited their ultimate rejection of the unobservable since then, and consequently introduced instrumentalism as an alternative, they have persistently denied the existence of the unobservable (Hanson, 1958). Post-positivists argue that the researcher can go beyond the observed reality and reveal more fundamental layers, of which what we 'see' is a kind of projection or reflection (Alvesson *et al.*, 2009). Positivists believe that reality is what constructs the person (Evans, 2000), and their strict focus on a reality that is observable has left substantial gaps in research. Some hidden patterns underlying rule formations might exist, which govern the observed parts of reality, and which can contribute to explaining these observed parts if explored (Alvesson *et al.*, 2009). Consequently, the post positivist approach has limited explanatory power for its inability to explain phenomena that are not visible to the eye.

As noted earlier, the single aim of positivists is to generate a universal law that explains reality and reveals the objective truth (Girod-Seville and Perret, 2001). Previous experience, historical events, and contextual conditions find no place within the positivist rationale. The positivist researcher is entirely detached from the environment and is distant from the object of the research (Carson *et al.*, 2001). This assumption has been challenged by post-positivist researchers, who refute the generalisation of facts without considering their contextual environment. The universality of findings cannot be proven; history warns against making such a claim (Kuhn, 1970).

Another critical argument about positivist beliefs is related to the role of the researcher. Positivists stress the objectivity of the researcher, who has to be disconnected from his past and current experience, locking his knowledge in a box and acting in complete neutrality vis-à-vis the object. If the separation of biases of the mind from the world during the entire research process does not exist, the researcher will be involuntarily obliged to use previous and current experience, thus contaminating the research with biased thoughts. While positivists claim absolute objectivity, post positivists claim a certain level of objectivity (Crotty, 1998).

Following these critical arguments, post-positivism is considered to be a refinement or a modified version of positivism. While positivism is on the extreme objectivist quantitative epistemological side that only believes in the absolute truth, post-positivism is less extreme in rejecting the unobservable reality and rather believes in coming closer to the truth (Ernest, 1994). This explains why most of the researchers classify post-positivism as an objectivist epistemology that is less rigid than positivism, yet does not go to the other constructionist and subjectivist extreme (Crotty, 1998).

3.1.2 Constructionism

The constructionist epistemology is on the other extreme of the epistemological debate between objectivism and subjectivism. The dichotomy between the positivist and the constructionist philosophical schools is clearly shown in Crotty's (1998) definition of constructionism:

“Constructionism is the view that all knowledge and therefore all meaningful reality as such, is contingent upon human practices, being constructed in and out of interaction between human beings and their world, and developed and transmitted within an essentially social context.” (Crotty, 1998: 42).

The above definition shows that the constructionist ideas ultimately reject the ideas held by objectivists. Constructionists do not believe in objective truth, but relate truth to the level of interaction between humans and objects. As such, the object is not external, but is embedded in human experience.

“Constructionism claims that meanings are constructed by human beings as they engage in the world they are interpreting.” (Crotty, 1998: 43).

Constructionists emphasise the role of meaning, which they see as constructed rather than created. A constructionist is an engineer whose role is to assemble existing objects in the world to give them meaning. The assembly of processes depends on the experience of the researcher and the value of the concerned objects. Constructionists refute the value free assumption held by positivists. The interaction between the researcher and the world is at the heart of the constructionist epistemology. With accumulated experience, individuals become conscious of what is happening in their

world. When the mind becomes conscious of something, it reaches out to, and into, that object (Crotty, 1998). As defined by the Oxford dictionary, experience is nothing but a historical accumulation of knowledge. It is the practical contact with and observation of facts or events. Experience represents the knowledge or skill acquired by humans over a period of time. Experience is explored by constructionists with the objective of coming closer to reality by interpreting the meanings that emerge from the individual. These meanings are not value free, as believed by positivists, but are influenced by the external world and by the personal experience of the individual. A major theoretical perspective that stems from constructionism is interpretivism.

The term interpretivism is derived from the Greek word *hermeneuein*, which means to interpret something (Carson *et al.*, 2001).

“Interpretivism believes in culturally derived and historically situated interpretations of the social life world.” (Crotty, 1998: 67).

Interpretivists assume that meanings are constructed by humans as they engage with the world they are interpreting. According to Blumer (1969), human beings act towards things on the basis of their meanings for them. These meanings are extracted from the social interaction of human beings and are handled through an interpretive process (Blumer, 1969). Positivism focuses on the explanation of observable objects whereas interpretivism highlights the importance of understanding the meaning derived from a phenomenon.

“The understanding of causation comes through an interpretive understanding of social action and involves an explanation of relevant antecedent phenomena as meaning complexes.” (Crotty, 1998: 69).

The interpretivist researcher has an eminent role in understanding the world as it is at the level of subjective experience (Burrell and Morgan, 1979). The researcher strives to understand the phenomenon from different perspectives without neglecting his current and past experience along with the context of the research, the insight of the actors' perceptions, as well as the historical specificities that can explain why representations are the way they are (Eisenhardt and Grebner, 2007). The interpretivist does not accept

reality as it is, but seeks to understand the hidden phenomenon behind the reality by asking why and how questions. Thus, interpretivist researchers tend to use qualitative techniques to explore the phenomenon. For them, the process of generating new knowledge involves understanding the meaning actors give to reality (Girod-Seville and Perret, 2001). Such a process rigidly contradicts the positivist approach, which only believes in an objective truth that is generalisable regardless of the surrounding context.

3.2 Epistemological Stance of the Researcher

The epistemological position of the researcher influences the entire research process. An epistemological position, such as religious beliefs, is significantly subjective and personal (Brown and Dowling, 1998). Such a position depends on the personal beliefs of the researcher, how he sees the world, and the nature of the topic. A particular epistemological approach, such as what we see and think in the research, is influenced by human nature (Burrell and Morgan, 1979).

The epistemological position of the researcher is influenced by four factors. The first is the “where” factor and is related to where the research is taking place. The second is the “when” factor and relates to when the research is taking place. The third is the “what” factor, covering the objectives of the research and the final one is the “who” factor, which discusses the role of the researcher. These factors, which are explored further in the following section, are far from objectivism and closer to constructionism, thus justifying the adoption of a constructionist epistemological stance that is supported by an interpretivist theoretical approach. The factors influencing the epistemological position of the researcher are illustrated in Figure 3.2.

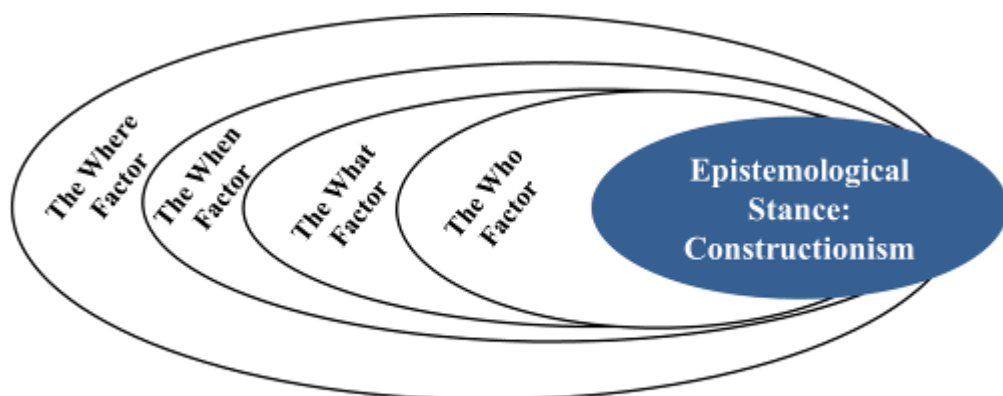


Figure 3.2. Factors influencing the Epistemological Stance of the Researcher

3.2.1 The 'where' factor: the context of the research

The research takes place in three different countries (Iraq, KSA, and UAE), which have been selected based on the maturity of the modern trade retail channel (Figure 3.3). Understanding how changes in the channel environment influence the dyadic risk mitigation strategies is central to this research.

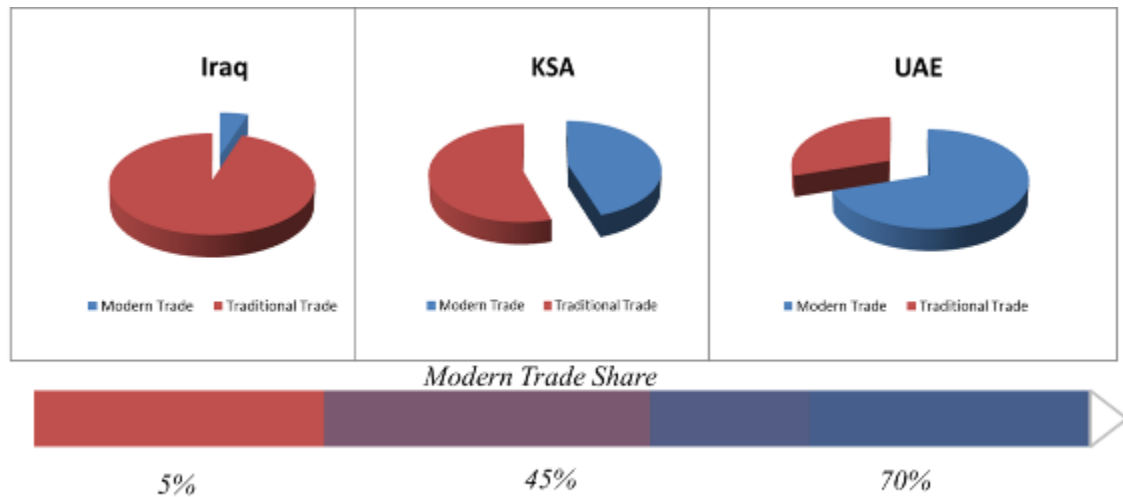


Figure 3.3. The Context- Modern Trade Channel Share

Iraq is a predominantly traditional trade market where small grocers with an average surface area of 30 square meters represent 95% of the total grocery industry business according to AC Nielsen. KSA is a mixed channel market, where modern and traditional trade retailers have equal power. UAE is a predominantly modern trade market where regional and international hypermarket stores with an average area of 2,000 square meters represent 70% of the total grocery retail industry. The UAE grocery market is comparable to the trade structure in Europe and the Americas, though not yet as consolidated.

A positivist researcher would have assumed the universality of the agency and TCE theories. An interpretivist researcher, however, would have looked at the contextual factors and how variations in the context would influence the subject being studied. Trade structure is an important contextual factor that influences the epistemological stance of the researcher.

This research assumes that trade structure has an important impact on the relationship between suppliers and distributors. Each of the three countries selected is characterised

by a different trade structure, as shown in Figure 3.3. Iraq is on the extreme traditional trade side, UAE is on the extreme modern trade side, and KSA is positioned rather in the middle. Following the variation in the trade structure, suppliers may adopt different governance structures that might have different implications for distributors. Variations in the perception of risk and in the adaptation to environmental changes give rise to multiple realities, which affect the epistemological stance of the researcher.

The single reality assumed by the positivist school (Easterby-Smith *et al.*, 2002) could have been relevant had the research been dealing with a general context where the observable outweighs the unobservable. However, because the research is dealing with multiple realities following different contextual conditions, an interpretivist stance is considered more flexible in understanding what is happening in the context of the phenomenon under examination and why it is happening (Carson *et al.*, 2001). Furthermore, the belief that the concepts of truth and reality are dependent on external conditions and varying contexts, as defended by interpretivists, is the founding basis of this research. The dynamic framework between the various contextual situations is not only restricted to the place (countries with different trade structure positions), but also to time (when the phenomenon happened or is expected to happen). This leads to the second factor affecting the epistemological position of the researcher, which is the 'when' factor.

3.2.2 The 'when' factor: the element of time

Yesterday's reality might differ from the reality of today or even that of tomorrow. This research explores the relationship between suppliers and distributors in three countries of the Middle East. The current trade structure in KSA is similar to that of UAE 10 years ago, and the trade structure of Iraq presently is comparable to that of KSA 20 years ago. Similarly, the expected trade structure of UAE 10 years from now may resemble the trade structure in Europe and USA today (see Figure 3.4).

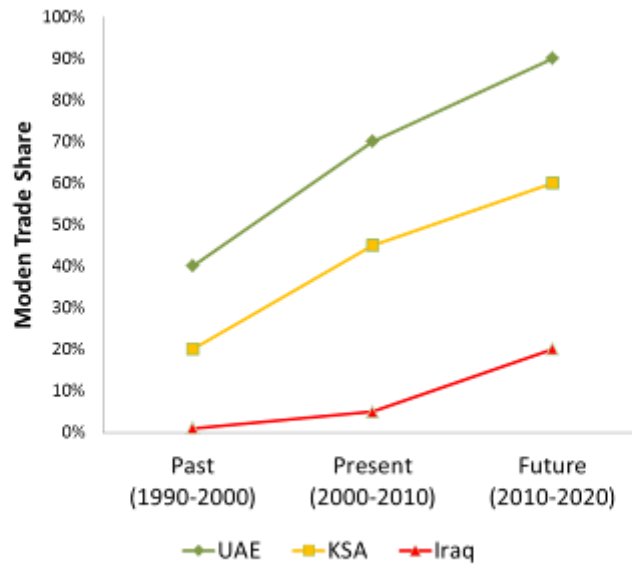


Figure 3.4. Retail Evolution Trend-Simulation

The research is not exploring a static topic, but a dynamic one that is constructed following human beings' past experiences, the historical patterns of events, and predictions of what will happen in the future. In Figure 3.4, the past shows how the trade was structured in the three markets, the present how it is structured today, and the future how it is projected to be by 2020 based on growth trend simulations. The research explores the past, present, and the future and examines how the relationship between a supplier and distributor evolves over time. Such a belief is reasonably supported by the interpretivist epistemology, which provides the researcher with a unique flexibility to explore evolutionary processes. A positivist stance does not offer such flexibility.

The where and when factors demonstrate that the research explores a dynamic transformation process of a specific phenomenon in various contexts and time frames. The two factors confirm the existence of a multiple reality constructed by extracting meanings from the present and the past, and predicting the meanings that will be closer to the truth in the future. The following section sheds light on 'what' will be explored in the research, by revealing how the nature of the topic explored further supports the adoption of an interpretivist stance.

3.2.3 The 'what' factor: the objective of the research

Knowing what you want to find, as noted by Miles and Huberman (1994), leads to the question of how to obtain the information.

The research seeks to uncover the following realities:

- What are the risks affecting suppliers and distributors in KSA, UAE, and Iraq?
- How are suppliers and distributors mitigating these risks?
- What is the most effective contracting mechanism between suppliers and distributors?
- What is the role of trust and what contributes to the development of trust?
- What causes suppliers and distributors to integrate specific capabilities and outsource others?
- How are integration and outsourcing decisions made?

The researcher seeks answers that are specific to the role and context of the subject. By focusing on these two dimensions, he acknowledges the existence of a multiple truth. In a supplier distributor relationship, the two parties are bound to have different, if not opposing, perceptions, which mostly reside in exploring the notion and consequences of risks. When examining risk mitigation strategies, some members might acknowledge the strategic need to adapt their model to the competitive requirements, while others might resist change. These meanings are hidden and can only be brought to light through an active participation with each member of the dyad in each of the three markets. The research explores a relationship that was built with time and that involves outsourcing the sales and distribution activities. The scope of the outsourcing responsibility and the strategic importance of the outsourcing function might transform the distributor into a strategic member in the supply chain. What contributed to the development of trust in the past might not be sufficient to enhance the level of trust in the future. Moreover, the concept of trust may have diverse interpretations in the West and in the East. An interpretative approach will help in extracting those meanings.

The main topics explored by this research support the adoption of an interpretative epistemological stance. The relationship between the topics and the researcher's epistemological position are presented below.

The first topic regards the notion of risk. Risk can be assessed from both an objectivist and a subjectivist perspective. The research focuses on the dyadic risks that result from outsourcing the sales and distribution activities. As examined in the literature review,

such risks mainly result from the inability of suppliers to control outcome and behaviour based performance. The researcher's epistemological position is supported by the belief in the existence of multiple meanings and realities to explore the notion of risk from the sides of the supplier and the distributor.

The agency theory assumes that the lack of control is mainly due to information asymmetry existing between suppliers and distributors (Eisenhardt, 1988). The consequences of such risks might be different following the contextual situations. To mitigate dyadic risks, TCE proposes increasing the level of control by altering the governance structure (Williamson, 1985). Although the TCE and agency theories assume that suppliers are risk neutral, some suppliers might be willing to face such risks, unlike others. Suppliers might adopt different mitigation strategies that depend on several factors, such as how suppliers perceive the control loss risk, the relationship between risk and the context, the supplier's past and current experience in mitigating risks, and the willingness of the supplier to mitigate risks in the future. An interpretivist paradigm explores meanings that are specific to the context under investigation and subject to the individual's perceptions. These features are essential in understanding the risks affecting suppliers as well as the mitigation strategies adopted across the different contexts.

The second topic relates to the notion of trust. The agency and TCE theories have been mostly explored and tested in a Western culture. However, a cultural reality in the West might not be the same reality in the East, especially when exploring behavioural concepts such as trust and opportunism. Following Hofstede's dimensions of national culture, the six dimensions that distinguish countries are: power distance, gender, individualism-collectivism, uncertainty avoidance, long term orientation, and indulgence versus restraint (Hofstede, 1993). Such dimensions have important implications for individual/organisational behaviour and may affect how reality is interpreted. Eastern cultures, for instance, are recognised for being collectivists, which is different from the Western culture (Bohnet *et al.*, 2010).

The way a supplier trusts a distributor might differ from the way a distributor trusts a supplier. Hardin (2002) defines trust as encapsulated interest. The cultural differences between the West and the Middle East gave birth to seminal cultural differences

between suppliers and distributors. It is important to note that suppliers sampled by the research are multinational companies, which are the mostly likely to adopt a Western culture.

Distributors sampled by the research are local family businesses driven by local cultural values and norms. People in the West seek self-actualisation and personal achievements (Kim, 1994). In Eastern cultures, however, family harmony and collective welfare are the most important values (Park and Kim, 2003). Hardin's (2002) definition is outcome based: a person's best interest can be defined in terms of the outcome it provides. Trusting a person requires a demonstration of trustworthiness (Hardin, 2002). Trustworthiness is built over time and involves concrete acts that permanently, not occasionally, exhibit a belief in the continuity of the relationship. The research focuses on the permanent trust development dimensions by exploring how interpersonal and intra organisation trust come together and how they evolve between suppliers and distributors in different contexts in the Middle East.

The relational dimension also involves the trustworthiness of the person managing the relationship. The creation of interpersonal trust is influenced by the capability of the person to establish a trustworthy relationship that balances between organisational interests and relational interests. In the Middle East, it is unclear whether the interpersonal trust dimension is more important than the inter-organisational one.

The research aims at understanding the supplier distributor relationship from the transactional as well as the relational angles within an evolutionary perspective. The relational angle is explored to respond to the literature criticizing the TCE theory. The assumptions raised by the relational approach might be applicable to the context of the research.

Although some researchers have adopted a positivist stance in exploring trust (Soroka and Johnston, 2007), the cultural differentiation between the Western and Eastern meanings of trust is key to the research. There is universal agreement on the definition of trust; however, the application of trust and its boundaries might differ amongst diverse cultures.

Any viable account of trust, according to Hardin (2002), must be both cognitive, i.e. involving some knowledge of the others in terms of their trustworthiness, and relational, i.e. referring to trust in some specific person. Organisational values and principles and their corresponding application are important dimensions that can be explored following an interpretivist approach. Positivists do not accentuate subjective values, but rather treat all subjects objectively.

A positivist approach focuses on the universal laws of trust and fails to adapt to specific cultural and relational dimensions (Choi and Kim, 2004). An interpretivist approach, however, explores how trust is interpreted from both sides of the dyad. It should be noted that trust has been given different meanings in the literature. Some have seen it in terms of a calculative institutional approach (Williamson, 1993), whilst others have used a cognitive approach (Tyler, 2002). This variation in the conceptualisation of trust is well accepted in the literature (Hardin, 2002).

The third topic involves the notion of asset specificity. Williamson (1993) acknowledges that asset specificity is not a universal variable, and has to be adapted to the nature and context of the industry. The adoption of a positivist stance to test TCE is possible if the test is occurring in a controlled environment. A laboratory setting and a uniform channel environment are examples of a controllable research environment. In such a case, the asset specificity attributes are observable and a deductive research approach is possible.

Suppliers and distributors may perceive the specificity level of assets involved in the transaction differently. An asset of high specificity for a supplier may not be the same for the distributor, and vice versa. To overcome this perceptual difference, researchers have focused their examination on one member of the dyad: supplier or distributor, seller or buyer, manufacturer or customer. By adopting an interpretivist approach, the researcher is able to provide a deeper understanding on the following three elements:

- The relationship between asset specificity and the context: As presented earlier, interpretivists emphasise the relationship between the subject and the context; reality for them is not external to the research, as claimed by positivists. The researcher believes that both the supplier and distributor's assets are influenced by the structure of the trade. The specificity of the assets might differ between

traditional trade countries and modern trade countries. An inductive approach sheds light on such differences.

- Asset specificity: static versus dynamic: By default, and as explained by the TCE theory, suppliers should outsource assets of low specificity to their transactions, and integrate assets of high specificity. The relationship between suppliers and distributors is dynamic and may evolve with the evolution in the market. As examined in the ‘when’ factors earlier, an interpretivist stance is flexible in constructing reality based on past and present experiences and on future expectations. Questions such as what types of assets should be integrated in the future and why, are relevant.
- Asset specificity profiling: The TCE theory focuses on brand, human, dedicated assets, physical, and information assets. Outsourcing decisions give rise to new types of assets that might be of high specificity to the transaction. The person hired by the supplier to manage the outsourcing relationship can have an essential role in the development of interpersonal trust. Although it could be argued that this person might fall under the human or dedicated asset specificity classification, an inductive approach permits the exploration of new meanings that can contribute to enriching the theory.

3.2.4 The ‘who’ factor: the role of the researcher

The ‘who’ factors are critical factors that guide the epistemological position of the researcher as they cover his role and experience, the purpose of his exploration, and his target audience.

In this research, it is unavoidable to separate the researcher from the world of the research. The researcher is a Senior Director in a supplier type organisation. His main responsibilities are to develop the capabilities of the organisation’s 14 distributors located across the Middle East, and the management of strategic transformation programmes that encompass presenting the rationale of the program i.e. the need for transformation and the transformation strategies used.

The researcher is aware that his current profession and experience within a supplier type of organisation might cause bias, leading to an opportunistic approach, as noted by

Gummesson (2000). To avoid preconceived notions, the researcher decided to rely on his experience outside the context of the workplace and preferred not to exploit his current managerial position, which gives him direct access to key senior management as well as critical secondary data. Instead, he chose to conduct the research outside the scope of his work, and thus none of the 14 distributors were asked to participate to the fieldwork.

Interpretative researchers are concerned with describing, decoding, and translating rather than measuring the frequency of phenomena in the social world (Schwandt, 2001). It will be difficult for the researcher to separate himself from the phenomenon under exploration and thus from the external world, as proposed by the positivist paradigm. His role will be to extract meanings from experienced respondents through an active interaction that is not restricted by a structured research protocol.

The researcher seeks knowledge gained through social constructions such as language, consciousness, and shared meanings (Klein and Myers, 1999). By adopting an interpretative paradigm, the researcher will be able to explore different realities within a given context, and connect the realities that exist in a specific context to other realities that exist in another. Following this approach, and as noted by Orlikowski and Baroudi (1991), the role of the researcher is to bring to consciousness the restrictive conditions of the status quo.

The 'who' factor shows how the researcher sees the world from the eyes of those who are living it. This epistemological stance is also based on the principles and values that the researcher acquired over a period of 10 years of voluntary work in the Red Cross organisation, where he saw the world through the eyes of his team, which helped him understand how to motivate volunteers who give without expecting anything in return. The researcher had to adapt his leadership style accordingly, seeking abstract and intangible incentives that intrinsically drive the conviction of the team, not only in what they are doing but in why they are doing it. Since the individuals' behaviour is stimulated by their core beliefs, the personal and professional experience of the researcher plays an important role in selecting the appropriate epistemological stance.

3.2.5 Researcher's epistemology

Following the 'where', 'when', 'what', and 'who' factors presented above, the researcher opted to follow the interpretivist theoretical approach, which is based on a constructionist epistemological stance. The researcher is aware of the criticism arising from such a stance, especially from objectivist researchers. Epistemological stances are personal decisions that consist of an individual's beliefs about the certainty of knowledge, the organisation of knowledge, and the controls an individual has over knowledge (Schommer-Aikins and Hutter, 2002).

The researcher constructed his epistemological position following a process that shed light on the main factors influencing his epistemological beliefs, taking into account the subject of the research.

The 'where' and 'when' factors led the researcher to determine his concern with multiple realities since the research is taking place in three countries, each characterised by a specific trade structure, and in three time zones, the past, present, and the future. An interpretative perspective assumes that realities cannot be understood in isolation from the context; inquiry into those multiple constructed realities will inevitably diverge (Guba and Lincoln, 1985).

The 'what' factor confirms that the researcher is prioritizing the phenomenon under study over the specific measurable observations. The phenomenon is characterised by contextual boundaries (modern trade versus traditional trade), cultural boundaries (West versus Middle East), and perceptual boundaries (supplier versus distributor).

The 'who' factor delineates the role of the researcher as an active participant in the research process. The researcher is not external to the social world but is at the centre of it. Interpretivists assume that the researcher is the primary data collection instrument (Guba and Lincoln, 1985). As suggested by interpretivists, the role of the researcher is to identify contextual meanings following numerous points of views (Green, 2000).

3.3 Methodology

The researcher's epistemological stance and theoretical perspective influence his methodological choice. A positivist theoretical perspective supports the adoption of quantitative research methodologies, whereas an interpretative stance supports the use of qualitative research methodologies (Crotty, 1998). Methodology is a body of knowledge that enables researchers to explain and analyse methods. It is the study, description, and justification of methods and not the mere description of the methods themselves (Kaplan, 1964).

Following Crotty's (1998) research process and prior to addressing the methods that will be used to collect the data, the researcher will examine the strategies that conform to his epistemological position. The chosen methodology bridges the researcher's philosophical stance and the methods used to gather information.

3.3.1 Quantitative versus qualitative research

The difference between quantitative and qualitative research originated from the epistemological debate between positivism and interpretivism. On first examination, quantitative and qualitative research methodologies look similar, starting with the definition of a research question, going on to the design of survey mechanisms (questionnaires, observation guidelines, etc.), followed by the collection and analysis of information, and finally concluding with a written report (Punch, 2005). Quantitative research tends to be linear and uses statistical methods to test hypotheses. In this sense, quantitative research uses a two dimensional approach, whereas qualitative research is non-linear and uses a multidimensional approach to develop a hypothesis or theory.

Both research approaches require identifying a sample representative of a larger population of people or objects. Quantitative research requires a random selection of the sample from the study population (Duffy, 1987), implying that the findings have an increased likelihood of being generalisable. Qualitative research requires the selection of a smaller sample because of the in-depth nature of the studies and the analysis of the data required (Cormack, 1991). A recognised weakness of this approach is concern that the researcher might have been influenced by a particular predisposition, affecting the generalisability of the small scale study (Bryman, 1988).

Quantitative research is considered more reliable than qualitative investigation as it is able to exclude bias, giving a higher degree of confidence (Snow and Thomas, 1994). The reliability of qualitative research is weakened by the fact that the process is under-standardised and relies on the insights and the abilities of the observer, thus making an assessment of reliability difficult (Duffy, 1987).

In terms of validity, qualitative methodologies have an advantage over quantitative methodologies. The weakness in quantitative research is that the more tightly controlled the study, the more difficult it becomes to confirm what the research situation is like in real life. The strength of qualitative research is that there are fewer threats to external validity, because subjects are studied in their natural settings and encounter fewer controlling factors compared with quantitative research conditions (Sandelowski, 1986).

Regarding the relationship between the researcher and the respondent, there exist two views, each in favour of one of the research methodologies. Duffy (1987) argues that the strength of an interactive relationship is that the researcher obtains first-hand experience, providing valuable and meaningful data. Since the researcher spends more time on the subject, data is more likely to be honest and valid (Bryman, 1988). The relationship between the researcher and participants might result in subjectivity and consequently distort findings (Cormack, 1991). In its most extreme form, this is referred to as going native, where the researcher loses awareness of being a researcher and becomes a participant (Bryman, 1988).

In summary, and putting the researcher's epistemological stance aside even when this is considered an invalid assumption in academic research (Crotty, 1998), the choice between qualitative and quantitative research depends on the type of data the researcher is interested in gathering when testing an existing theory or exploring a certain reality. Is the researcher starting with an observable reality or is he seeking to uncover what is below the surface of what is claimed to be the truth? The researcher is not seeking numbers and numerical correlations but explanations, strategic insights, and behavioural dimensions. Due to the nature of the topic explored, the researcher prefers actively engaging with the respondents. Finally, the researcher relies on his professional experience in order to bring a greater value to the research topic without falling into the trap of being biased. Such a position, defined earlier as being an interpretative

epistemology, adds to the conviction of the researcher to follow a qualitative methodology while taking into account regarding the philosophical assumptions raised by positivists. The researcher positions himself as a neutral agent in relation to the ongoing epistemological debate.

3.3.2 Discussion on qualitative research

Qualitative research emerged as a result of researchers working in social sciences interested in studying human behaviour and the social world surrounding them (Morgan, 2007). Qualitative research is used when a researcher knows little about a topic or phenomenon but is interested in discovering more about it. Qualitative research is exploratory by definition, and is used when one does not know what to expect (Roberts *et al.*, 2006), or when one wants to define the problem or develop an approach to the problem. As mentioned earlier, qualitative research stems from the constructionist paradigm and seeks out the ‘why’ of its subject through examining meanings that are hidden in human perception and are subject to their experience. The approach adopted by qualitative research methods tends to be inductive with a non-linear process, which often involves a move from the specific to the general. It is generally guided by certain ideas, perspectives, or hunches regarding the subject under investigation (Cormack, 1991). This does not mean that qualitative research is a purely inductive approach. The researcher can start with a general theory and use a qualitative approach to refine the theory or even to come up with a new one. By doing so, the researcher will frame the research within the context of the theory and then show how inductive theory building is necessary (Eisenhardt, 2007).

There is no truth or falsehood, as suggested by the positivist paradigm. Knowledge is of a softer, more subjective, spiritual, or even transcendental kind, and is based on the experience and insights of a unique and essentially personal nature (Burrell and Morgan, 1979). An important advantage of qualitative research is its ability to overcome complex social processes that cannot be revealed by quantitative research (Eisenhardt, 2007). According to Miles and Huberman (1994), the strength of qualitative research is in locating the meaning of experience within the social world, placing the phenomena within their contexts. In most cases, interpretivism is associated with qualitative research methodologies.

The current research adopts a case study methodology, which is coherent with the researcher's epistemological stance (Crotty, 1998). Case study research is predominantly useful for responding to how and why questions about a particular phenomenon (Yin, 2003).

3.3.3 Choice of relevant methodology

The epistemological stance adopted and the topic of the research guides the research strategy. The common strategies used by qualitative researchers are ethnography, grounded theory, case studies, phenomenological research, and narrative research (Creswell, 2007). The relevant strategy has to be identified based on the nature of the topic being explored, the objectives of the research, and its duration.

Ethnography is a strategy of inquiry in which the researcher studies an intact cultural group in a natural setting over a prolonged period of time by collecting primarily observational and interview data (Creswell, 2007). Ethnographic research necessitates a daily interaction between the researcher and the research environment. It mainly aims at exploring how people live, and their past and present experiences. This led to it being commonly used by cultural anthropologists, who are interested in observing the day to day activities of individuals within groups, organisations, and communities. Ethnography provides rich holistic insights into people's views and actions, as well as the nature of the location they inhabit. It is able to depict the culture, perspectives, and practices of people in specific settings (Reeves *et al.*, 2008). Ethnographic research is relevant if the research aims at exploring the day to day interaction between supplier and distributor teams over a period of time. It could also be relevant if the sole focus of the research is to examine the impact of culture on supplier distributor relationship. Ethnographic research is not a relevant strategy for this research for the reasons below:

- Although the research accounts for cultural difference, culture has not been positioned as a major theme.
- The relationship between suppliers and distributors is not examined over a period of time.
- The author is not as interested in observing the interaction between different teams as much as in the dyadic risks that affect the relationship given the experience of the people managing the relationship.

Narrative research focuses on the stories that are told by individuals describing events in their lives. This strategy centres on individuals (one or two) by gathering data through collecting stories. It has been commonly used in disciplines such as history, sociology, education, psychology, and anthropology but rarely in strategy and management. This strategy was immediately excluded from the choices available for the researcher because of its inability to explore the issues addressed by the research.

Phenomenological research, on the other hand, is used in strategy and management research when the researcher aims at understanding certain phenomena through the individuals who experience it (Moustakas, 1994). Similar to ethnographic strategies, phenomenological research is conducted over a period of time. The researcher must spend time with individuals to be able to provide a thorough description of what individuals are experiencing and how they have experienced it (Moustakas, 1994). The reasons that prevent the researcher from adopting a phenomenological approach are presented below:

- Phenomenology follows an inductive process and does not need to be based on existing theory, which is not the case in this research.
- The research questions of the present study do not involve conducting longitudinal research.
- The effective use of phenomenology entails exploring the experience of individuals relative to a similar phenomenon. The research is involved in exploring phenomena that may be different between organisations and countries.
- The researcher needs to set aside his personal experience, which is difficult for this research given the experience of the researcher and his involvement in the practical issues involved.

Another common strategy adopted by qualitative researchers is grounded theory. Grounded theory strategies go beyond describing a phenomenon, as is the case with phenomenology, to the discovery of a theory and abstracting it through an analytical schema (Strauss & Corbin, 1990). This strategy follows a fully inductive process where the researchers can start from nowhere to extract a reality that is grounded in the views

of participants. According to Charmaz (2006), the common features of grounded theory are: the collection and analysis of data in congruence, the creation of themes from the data not from existing literature, the inductive construction of abstract categories and the integration of categories into a theoretical framework. To effectively conduct a grounded theory strategy, the researcher must put aside prior knowledge and be able to step out of the existing theory. Since this research aims at exploring several propositions derived from TCE and the agency theories, the grounded theory is not perceived as an appropriate research strategy. A grounded theory approach would have been a relevant strategy if the researcher had not relied on existing literature, and the choice was to explore the risks affecting suppliers and distributors in full abstraction.

A case study research strategy is based on an in-depth exploration of a programme, an event, an activity, an organisation, or a relationship. While ethnographic research focuses on how culture works, case study research depicts cultural effects by deeply examining the case. The cases explored are bounded by time and activity and the researcher collects detailed information using a variety of data collection procedures over a sustained period of time (Stake, 1995). Case study proved to be highly relevant for developing the field of strategy and management. Some case studies have contributed to knowledge by generating new theories (Amit and Zott, 2001) and others by extending or refining existing ones (Collinson & Wilson, 2006). Case study research has also gained importance in contemporary supply chain literature and has been used as a mainstream strategy to explore supply chain issues (Bourlakis and Bourlakis, 2006; Ellram *et al.*, 2008; Kamann and van Nieulande, 2010; Blome and Schoenherr, 2011; Raised *et al.*, 2013; Khalaf *et al.*, 2014). In addition to its proved contribution to strategy, management, and supply chain research, the arguments below justify the decision to adopt a case study strategy for this research:

- The multiplicity of perspectives that are rooted in a specific context is considered to be a distinguishing feature of case study research (Ritchie and Lewis, 2003). The case study strategy account for contextual variation, which is seminal to this research in that it explores three different contexts.
- A case study methodology helps in exploring complex issues, a good or bad practice, adding strength to what is already known from previous research, or the generation of new theories (Dooley, 2002). The case study methodology is accordingly applied for theory generation (Eisenhardt, 1989) and theory

refinement when little is known about an existing theory (Stake, 1995). According to Cavaye (1996), case study research can be structured and deductive following a positivist approach, or unstructured and inductive following an interpretative approach, or both at the same time. This research explores a set of propositions that are derived from the theory and does not follow a completely inductive approach. The flexibility of case study strategies is a critical factor for this research.

- Similar to experimental strategies, case study research addresses how and why questions, without the need to control behavioural events (Yin, 2003). As illustrated in Section 2.8, this research aims at answering why risks occur (P1 and P2) in a natural setting, and how they are mitigated (P3, P4, P5, and P6), supporting the use of a case study strategy.
- Case study strategies are able to deconstruct and reconstruct a phenomenon by analysing it in a natural context. They are able to investigate a contemporary phenomenon in depth especially in situations when the boundaries between the phenomenon and the context are not evident (Yin, 2003), as is the case in this research.

The researcher will be looking at similar or different cases of supplier distributor relationships across Iraq, KSA, and UAE. The researcher is seeking answers from three different contexts. As observed earlier, case study research is suitable to examine complex situations. This is not a unique feature of case study methodology, but is a general feature of qualitative methodologies, which specialise in exploring the complexities and the differences of the world under study (Philip, 1998). The case study methodology aids in understanding the numerous cases available in a given context while explaining how a difference in context influences the phenomenon under investigation, especially in situations when the boundaries between the phenomenon and the context are not clear, as noted by Yin (2003). In natural sciences, the phenomenon is isolated from its context, which does not assist in explaining contextual differences.

Considering such differences is important for the topic of this research, especially since the research covers contexts that have structural differences. Some of the knowledge that proves to be true for a given context might not be true for another. Through case

study methodologies, the researcher is able to explain the phenomenon in its real life situation. As the methodology stems from an interpretative theoretical approach, interpretivists are assumed to understand the phenomena by assessing the meanings that participants assign to them (Orlikowski and Baroudi, 1991). This entails entering into the minds of people and seeing how they perceive all the factors that affect a given phenomenon. This research adopts a deductive approach that starts with a theoretical exploration, while maintaining flexibility in refining the existing theory, and evolving it through an inductive process. Such a process fully conforms to case study research (Stake, 1995).

The exploration of alternative research strategies, together with the reasons highlighted above, justify the choice of adopting a case study research strategy for this research.

The strength of case study research lies in its ability to deeply understand the complexity of a specific case within a given context and its ability to generate, extend or refine new or existing theories. The research used TCE and AT as a theoretical base. The gaps identified led to seven propositions (defined in Section 2.8) that contribute to the extension of TCE and AT by integrating the relational and evolutionary approaches.

3.3.4 Focus on case study methodology

The case study, following Miles and Huberman (1994), is a phenomenon occurring in a bounded context. As seen above, the case study is unparalleled for its ability to consider a single or complex research question within an environment rich with critical contextual variables. Below are some common categories of case study methodologies (Yin, 2003):

- Explanatory: aims at explaining the causal links in real life situations that are too complex for quantitative types of methodologies.
- Exploratory: aims at exploring any phenomenon by defining questions. Prior fieldwork, such as a small scale sampling is required before the formulation of research questions and the hypothesis.

- Descriptive: aims at describing the natural phenomena that occur in real life situations. The researcher must begin with a descriptive theory to support the description of the phenomenon or story.
- Illustrative: aims at illustrating certain topics within an evaluation in a descriptive mode.
- Enlightening: aims at enlightening specific situations in which the intervention being evaluated lacks clarity in terms of outcome.

Yin (2003) illustrates the different types of case study designs in a 2x2 matrix in Figure 3.5 below.

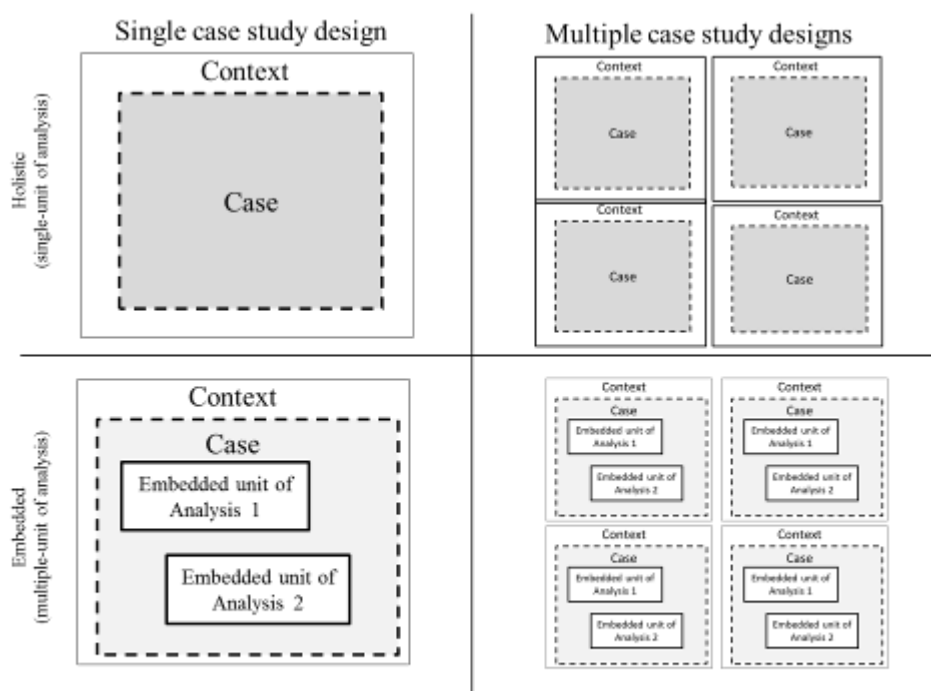


Figure 3.5. Basic Types of Designs for Case Studies

Five rationales are presented by Yin (2003) for single case study designs. The first rationale involves the critical case of testing a well formulated formula. A set of propositions are presented that either accept or reject the theory based on contextual conditions specified by the researcher. This rationale has several implications for theory building. The second rationale is mostly adopted in clinical psychology when an extreme or unique case is presented. According to Yin (2003), a single case study determines the precise nature of the disorder and whether other related disorders might exist. The third rationale involves a representative or typical case. The objective of a single case study is to capture the circumstances and conditions of a contemporary

event. This type of single case study is considered to be informative about the experiences of an average individual or organisation. The fourth rationale for single case studies considers revelatory cases that may arise when the researcher has the opportunity to observe a certain phenomenon that was inaccessible to social science inquiries (Yin, 2003). The fifth rationale for single cases covers longitudinal cases that explore the same case at different points in time. As noted by Yin (2003), it is important to differentiate between holistic and embedded case studies. This applies to situations when the same single case study involves more than one unit of analysis, such as different departments in the same organisation.

Multiple case studies are preferred over single case studies for generalisation purposes. If the researcher is interested in profoundly understanding a specific phenomenon within a defined context, a single case study is deemed to be a relevant methodology. Although a case study is more concerned with understanding a specific case in all its complexities, case study researchers use multiple case studies to respond to the issue of generalisation (Yin, 2003).

One must not confuse sampling logic and replication logic (Yin, 2003). Replication entails observing whether the outcomes of one experiment can be achieved if the same experiment is replicated more than once. If all the replications lead to the same outcome, the experiment is considered to be reliable. Replication contributes to theory development when the generalisation of findings occurs across a subpopulation (Easley *et al.*, 2000). By examining the various terminologies used in the literature to define replication, four major categories of replication are identified:

- Type 0 replication is defined as a precise duplication of a prior study. Cause and effect relationships in such a case are confirmed. This type of replication is most valid in natural sciences, where the environment can be entirely controlled.
- Type I replication is the faithful duplication of a prior study and is assumed to be the purest form of replication in social sciences.
- Type II replication is a close replication of a prior study and is considered to be the most common type of replication in marketing science as it involves testing the phenomenon in multiple contexts. If effects are shown in a variety of testing contexts, the case for the finding is strengthened (Easley *et al.*, 2000).

- Type III replication is a deliberate modification of a prior study (Easley *et al.*, 2000).

Multiple case studies follow the same logic of replication. According to Yin (2003), each case has to be carefully selected so that it either predicts similar results (a literal replication), or it predicts contrasting results but for anticipated reasons (a theoretical replication).

3.3.5 Research design

The research follows a multiple case study design, which, according to Yin (2003), should conform to the nature of the topic being explored. The rationale for multiple case studies derives from the understanding of literal and theoretical replications (Yin, 2003).

The research covers multiple cases within each context. A major challenge of case study research is the identification of the unit of analysis, which is related to the way the main research question is initially defined (Yin, 1994). It may be an individual, a group, an organisation, an event, or a phenomenon. The selection of the level and scope of the unit of analysis involves determining where the researcher goes to seek answers, with whom he converses, and what he observes (Miles and Huberman, 1994).

If the researcher aims at exploring the phenomenon in one environment for a specific situation, a holistic single case study remains the most relevant approach (Yin, 2003). In a single case study, the researcher can examine multiple subunits, whereby data is collected from several departments in the same organisation. For instance, multiple subunits can be identified to examine the impact of effective sales and marketing collaboration on sales forecasting. The consistency of case study research is associated with the careful identification of the cases being studied (Miles *et al.*, 2013; Yin, 2003). To ensure that the identified cases are coherent with the objectives of the research, the researcher identified the following four steps in designing the multiple case study research:

The design starts by defining the context of the research. Exploring the nature of reality in a complex setting is an important feature of case study research (Yin, 2003). The

research takes place in three different contexts (KSA, UAE, and Iraq) that are classified based on modern trade share, with Iraq and UAE being in opposing contexts: Iraq is on the extreme traditional trade side and UAE is on the other extreme (Figure 3.6).

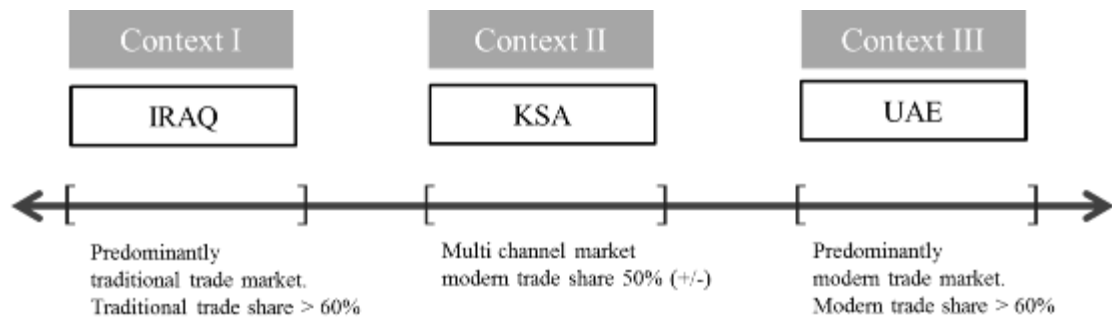


Figure 3.6. Contexts of the Research

The second step involves defining the unit of analysis. The selection between a multiple case study holistic design and an embedded design depends on the phenomenon type (Yin, 2003). The research explores the relationship between dyadic members in the supply chain. The unit of analysis is represented by the dyad, composed of a supplier and a distributor in a given context. Fifteen multiple cases have been selected for this research, allocated between Iraq, UAE and KSA as shown in Figure 3.7.

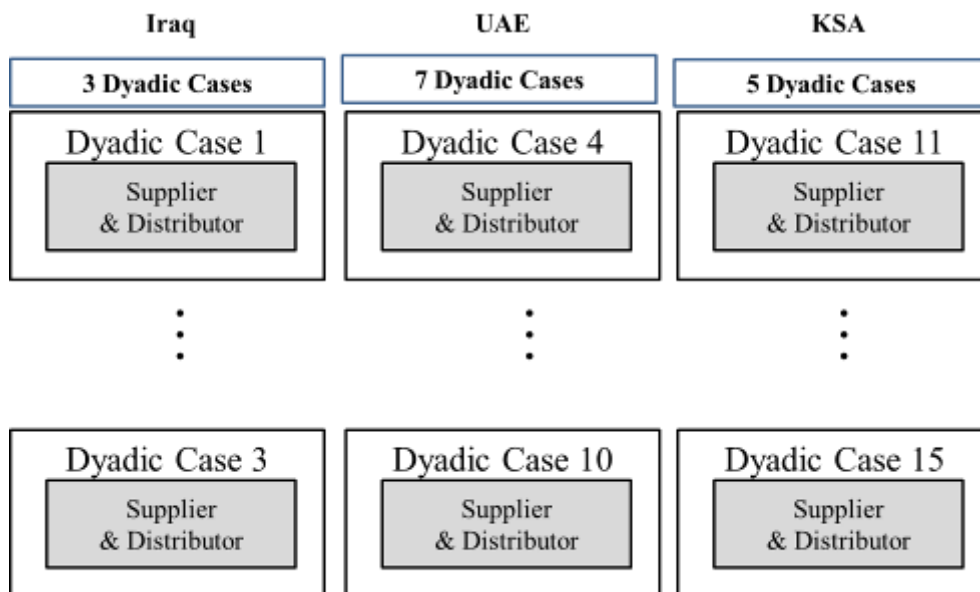


Figure 3.7. Fifteen Dyadic Cases

The distribution of cases considered the security issues that exist in certain countries. During the data collection phase, the security situation in Iraq had escalated, which drove the researcher to limit the cases explored in Iraq to three. Regarding the allocation of cases between KSA and UAE, more focus was given to KSA as it is the most

important country for FMCG companies in the Gulf, representing around 60% of the volume of their businesses.

Suppliers and distributors belonging to each dyadic case explored are presented in Table 3.1. The cases analysed for the research include the leading suppliers and distributors in Iraq, UAE, and KSA. 67% of the suppliers interviewed and 47% of the distributors interviewed are among the top three performing companies in their countries. Dyadic cases were selected to include the same suppliers in different countries, to help in understanding the reaction of similar suppliers to dyadic risks across different contexts. Since the participating suppliers and the distributors are leading FMCG players, the findings can be extrapolated to other players in the markets as the cases analysed can be positioned as benchmark cases. Leading companies are positioned as innovators, and their reactions to dyadic risks represent how the whole industry is most likely to react.

Country	Dyadic Cases		FMCG Categories	Market Rank	# of Employees (global)
Iraq	Case 1	Supplier	Petcare, chocolate, food, sweets, drinks	Among top 3	72,000
		Distributor		Among top 3	
	Case 2	Supplier	Baby food, bottled water, cereals, chocolate, coffee, healthcare, ice cream, petcare.	Among top 3	333,000
		Distributor		Among top 5	
	Case 3	Supplier	Snacks and beverages	Among top 3	274,000
		Distributor		Among top 10	
UAE	Case 4	Supplier	Petcare, chocolate, food, sweets, drinks.	Among top 3	72,000
		Distributor		Among top 3	
	Case 5	Supplier	Baby food, bottled water, cereals, chocolate, coffee, healthcare, ice cream, petcare.	Among top 3	333,000
		Distributor		Among top 3	
	Case 6	Supplier	Beverages, biscuits, cheese and grocery, chocolate, gum and sweets	Among top 3	107,000
		Distributor		Among top 10	
	Case 7	Supplier	Chocolate and drinks	Among top 5	74,797
		Distributor		Among top 3	
	Case 8	Supplier	Bars, beverages, cereal, crackers, fruit flavored snacks, toaster pastries, warm breakfasts	Among top 10	30,277
		Distributor		Among top 10	
Case 9	Supplier	Beauty, baby, feminine, family care, fabric, home care, health and grooming	Among top 3	129,000	
	Distributor		Among top 3		
Case 10	Supplier	Gum, mint, lollipop, gum	Among top 10	16,000	
	Distributor		Among top 10		
KSA	Case 11	Supplier	Gum, mint, lollipop, gum	Among top 10	16,000
		Distributor		Among top 10	
	Case 12	Supplier	Petcare, chocolate, food, sweets, drinks	Among top 3	72,000
		Distributor		Among top 3	
	Case 13	Supplier	Baby food, bottled water, cereals, chocolate, coffee, healthcare, ice cream, petcare.	Among top 3	333,000
		Distributor		Among top 10	
	Case 14	Supplier	Beverages, biscuits, cheese and grocery, chocolate, gum and sweets	Among top 3	107,000
		Distributor		Among top 10	
Case 15	Supplier	Chocolate and drinks	Among top 10	24,797	
	Distributor		Among top 3		

Table 3.1. Details about Dyadic Cases Explored

The third step includes setting the research boundaries. Case study researchers might face the risk of extensive analysis by asking too many questions, targeting too many cases, and setting very high and sometimes unrealistic ambitions. As proposed by Miles and Huberman (1994) and by Yin (2003), setting boundaries for case study research

becomes a must. In order to be focused, efficient, and avoid falling into the trap of ‘when to stop’, the researcher set specific boundaries for the study following practical advice proposed by Miles and Huberman (1994), Yin (2003), and Creswell (2007). The following boundaries have been set for the research:

- Context: restrict it to three countries of the Middle East and exclude the remaining nine countries.
- Industry: focus on the FMCG industry only as the researcher has access to major multinational FMCG companies and distributors.
- Companies: focus on the top five companies in their categories as they should provide a good representation of market norms.

The fourth step includes the anticipation and the mitigation of certain complexities. Case study research is by nature expensive in terms of time and finance (Yin, 2003), and the collection of data necessitates travel and accommodation expenses. The researcher is a working professional, which puts constraints on the time dedicated to the research project. In order to mitigate the time and financial constraints, the researcher was able to obtain his employer’s approval and support to conduct some of the necessary fieldwork during scheduled business trips to the relevant countries for a certain period of time.

3.3.6 Issues of reliability

The research adopts specific strategies to mitigate issues of reliability, which are general to all types of qualitative research and others are specific to the case study methodologies; the research focuses on the latter. Yin (2003) presents four tests common to all types of social science research that are conducted to assess the quality of a research design (see Table 3.2).

Tests	Case Study Tactic	Phase of research in which tactic occurs
Construct validity	Use multiple sources of evidence Establish chain of evidence have key informants review draft case study report	data collection data collection composition
Internal validity	do pattern matching do explanation building address rival explanations use logic models	data analysis data analysis data analysis data analysis
External validity	use theory in single-case studies use replication logic in multiple case studies	research design research design
Reliability	use case study protocol develop case study database	data collection data collection

Table 3.2. Case Study Tactics

Case study research is criticised for its inability to provide information about the broader class (Abercrombie *et al.*, 1984), which jeopardises its credibility, especially in theory testing situations. Quantitative methodologies do not face this issue as they use statistical generalisations, whereas case studies rely on analytic generalisations. External validity refers to the degree to which the results of a study can be generalised to other groups. As examined earlier, multiple case studies are preferred over single case studies for their generalisability and replicability capabilities. According to Yin (2003), external validity issues are softened by adopting specific replication strategies. Replication strategies aim at establishing the reliability of previous findings and determining the generality of findings under diverse conditions (Hersen and Barlow, 1976).

To meet these objectives, Yin (2003) proposes two types of replication strategies. The first type is literal replication, which is achieved by selecting cases that are similar and that are expected to attain similar results. The second type is theoretical replication, which is achieved if the selected cases produce contradicting results based on theoretical assumptions. Literal and theoretical replications bring social science closer to the natural sciences. According to Yin (2003), the ability to conduct six to 10 cases studies arranged effectively in a multiple case design is as effective as conducting six to 10 experiments. An effective arrangement entails having two to three cases literally replicated and four to six cases theoretically replicated. Theoretical replication is possible if the research is supported by a strong theoretical review. If all cases turn out to be as predicted, then the six to 10 cases on aggregate provide strong support for the

propositions that were initially identified (Yin, 2003). This process of confirmation is referred to as triangulation.

Triangulation originated from the concept of an unobtrusive method, which claimed that the uncertainty related to the interpretation of research propositions is reduced if two or more measurement processes have been used (Webb *et al.*, 1966). Jakob (2001) defines triangulation as the combination of multiple observers, theories, methods, and empirical materials to overcome the intrinsic bias and the problems that come from single-method studies. Its purpose is to obtain confirmation of findings through convergence of different perspectives. Patton (2002) presents four different types of triangulation:

- Data triangulation: involves using different sources of information in order to increase the validity of a study and is most popular in multiple case study research.
- Investigator triangulation: refers to the use of more than one researcher or observer to gather and interpret the data. As a result, bias from one researcher is minimised if the findings from the different investigators converge.
- Theory triangulation: researchers from different disciplines may bring different perspectives to examining the theory. Thus, if investigators from different disciplines interpret information in the same way, the findings are generally more robust.
- Methodological triangulation: refers to the use of more than one method to gather data. Hence, the weaknesses associated with using one method are overcome by the strengths of another. Two types of methodological triangulation are presented. Between-method triangulation includes the usage of different methodologies, and within-method triangulation refers to the use of different varieties of the same method. The latter is mostly adopted by mixed study researchers and is considered to be time consuming and requires specific technical expertise.

Triangulation increases the level of confidence in the findings of the research and provides distinct ways of understanding a phenomenon (Thurmond, 2001). Multiple case studies are founded on the principle of triangulation, making it a robust methodology (Yin, 2003; Eisenhardt, 1989).

This research mitigates the reliability issues associated with qualitative and single case study research by adopting both a literal and a theoretical replication strategy through a multiple case study approach, as covered by the research design. Literal replication is achieved by exploring different cases that belong to the same context. The researcher expects that by examining multiple similar cases within the same category, the findings will converge on the same facts in order to ensure data triangulation.

It is important to note that other countries in the Middle East can be clustered within the three contexts defined by the research, as illustrated in Figure 3.8. The findings in Iraq, KSA, and UAE may be replicated to other cases that have the same channel context. Although qualitative analysis does not focus on generalising the findings to a wider population base, such a possibility adds to the sturdiness of the research design and to the richness of the analysis.

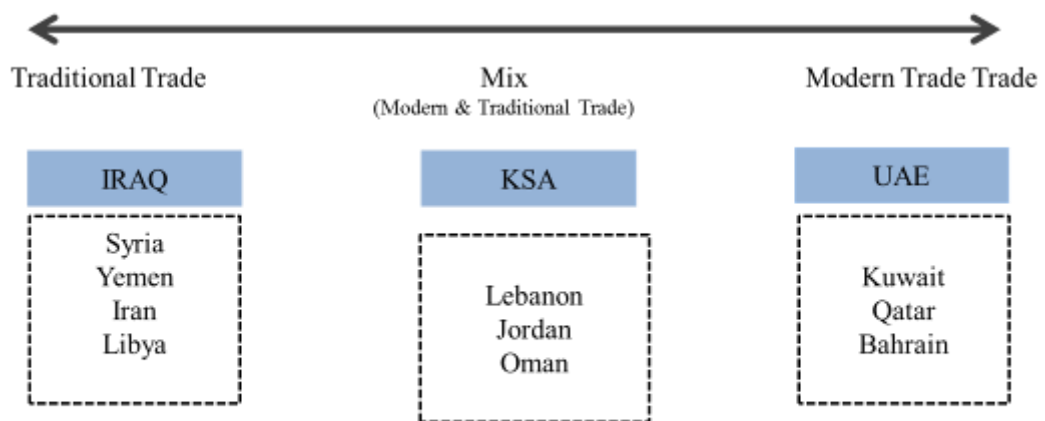


Figure 3.8. Generalization of Findings

3.4 Research Methods

The following section aims at examining the research methods adopted by the research, and is divided into four sub sections. Methods are associated with the methodology selected and the research strategy followed. The first subsection discusses the data collection method adopted, the second examines the sampling strategy used, the third subsection focuses on the management process adopted to gather the data and the last subsection concludes with the method used to analyse the data.

3.4.1 Data collection methods

Qualitative research methods are not based on pre-determined hypotheses. Instead, the researcher identifies a problem or topic that he wants to explore using a wide and deep angle lens, examining human choice and behaviour as it occurs naturally in all of its detail (Johnson and Christensen, 2010).

Various data gathering methods are available in case study research, including documentation, archival records, direct observations, physical-observation, and interviews (Yin, 2003). The method adopted in this research takes into account the strengths and weaknesses of each of the data collection methods, and the limitations that are faced in practice.

Archival records are different types of information stored in channels such as television, newspapers, mass media, public agencies, and syndicates. Such information can be both quantitative and qualitative, taking the forms of electronic records, hard files, and statistical data. Archival records can be subject to their own bias and influenced by the opinion of the data provider in several cases. To overcome this weakness, case study researchers are advised to choose channels that represent opposing opinions (Yin, 2003). Archival records have not been considered in this research due to the unavailability of such data for the targeted firms in the Middle East, as well as the inability of such data to cover the perception of experts in the field and to explore a contemporary phenomenon.

Some case study researchers gather data by using direct observation methods. The literature notes two forms of direct observation techniques: a conventional form and a formal form (Yin, 2003). Researchers using the conventional forms take field notes and count on their senses to draw conclusions about what they might have seen or experienced. Researchers can express their personal view as long as they differentiate between their view and that of the participants in the narrative. Formal forms are less biased as the researcher gathers observational data through structured instruments. Direct observational methods are mostly used on longitudinal case study research and require many researchers to gather data especially if multiple cases are involved. They have not been considered as an option on the grounds of being time consuming, costly,

and not practical as the researcher does not intend to observe or evaluate a specific behaviour.

In certain situations, the researcher gathers data by being an active participant and not a passive observer. Yin (2003) refers to this method as participant observation, where the researcher assumes a role in the data collection. This method was rejected due to ethical reasons; the researcher is an employed professional in a supplier type of firm and cannot play an active role in the data collection phase. Another excluded method is the gathering of physical artefact evidence. Such a method is not relevant for this research and is considered a minor data gathering technique in case study research (Yin, 2003).

On the other hand, the methods that are dominant in most case study research are documentation and interview methods.

Documentation takes many forms: letters, e-mails, memorandums, corporate documents, reports and internal records. (Yin, 2003). Documents are either available on the internet or are given by participants. In either case, documents cannot be considered as primary sources of evidence unless the topic of the research is to explore the efficiency of inter-organisational communication, for instance. In such a case, the internal communication information used by the firm (mails, memos, minutes of meetings...etc.) are analysed. In the Middle East, it is highly sensitive to share information and companies do not publish online information to the public. Specific documentation that can add value to this research was found online but the researcher could not afford to pay the associated costs. Such a method has not been considered due to retrieval issues. It should be noted that documentation can also engender some bias if it is not complete. The research has used the documentation method for informative purposes. Before gathering the data from a specific firm, the researcher went to the website to collect generic information about the firm. Some information on the website has been used as evidence. For instance, the values published on the websites of the targeted suppliers and distributors have been used as supporting evidence when exploring the notion of trust.

Interview data collection methods are prominent in case study research. The literature differentiated between three types of interviews: structured interviews, focused interviews, and in-depth interviews (Yin,2003).

Structured interviews use survey instruments and allow for quantitative data collection. Such interviews produce quantitative data and are mostly conducted if the research targets a large sample. This research targets a refined sample of experts in the field, and the objective of the researcher is to capture their perception, as implied by the epistemological stance adopted, looking at why certain events occur and how they are managed. A structured approach does not conform to the objective of the researcher, the sample chosen, nor the data that the researcher intends to extract.

A focused or a semi-structured interview method meets the objectives of this research. The reasons that drove the researcher to adopt this method are presented below:

- The research explores a set of propositions that have been deduced from the literature review. With a semi-structured interview technique, the researcher can address the topic supported by an interview guide that is based on the literature explored and the issues tackled.
- The researcher is targeting key informants who are top executives in the FMCG industry. A semi-structured interview technique takes account of the time constraints of these professionals and can deliver high quality data in a period of approximately one hour.
- The profiles of participants give interview methods an advantage over other methods used in qualitative research. A semi-structured interview is insightful and able to capture the perception of these participants if effectively executed. The researcher conducted five pilot interviews to be able to collect insights that are specific and rich in a period of one hour.
- Bias exists in semi-structured interviews but can be controlled better than in other data collection methods if the researcher is able to balance opposing views.. Semi-structured interviews give the flexibility to challenge certain ideas, provide counter arguments, and use specific practices to be able to gather solid evidence that significantly contributes to the topic explored.

The third form of interviews is the in-depth interview technique. In-depth interviews are highly effective but take place over an extended period of time. They have not been considered, not because they are irrelevant, but because of the associated complexities and additional costs given the scale of the research (15 dyadic cases). Moreover, the research is targeting senior professionals (GMs, CEOs...etc.), who cannot be easily retained for extensive in-depth interviews.

In both semi-structured and in-depth interviews the researcher might decide to address additional topics and drop others which are no longer deemed relevant. Open questions used in in-depth interviews allow time and space for free-form responses which invite participants to share their understandings, experiences, opinions, interpretations, and reactions to social processes and situations (McGuirk and O'Neill, 2005). Silverman (2005) asserts that a researcher conducting semi-structured or in-depth interviews needs to answer the questions detailed below:

- What status does the researcher attach to the data? Generally, interviews are chosen as a data collection technique for their ability to depict human experience about a specific issue. Individuals may attach multiple meanings to their experiences, which might affect the way they perceive a phenomenon. To avoid this issue, Silverman (2005) suggests treating interview responses as actively constructed narratives involving activities which require analysis rather than simply relying on direct experience. A constructionist approach helps on that front, as the researcher will not be bound by the current observable experience of the participant, but will be able to look into his past experience as well. Some interviewees from the supplier side might have previous experience from the distributor side, and vice versa. Moreover, the interview data collection procedure allows the researcher to eliminate some bias associated with the identity of the respondent. Interviewees from the supplier side will be asked how they would have acted had they been on the distributor's side, and vice versa. The researcher addresses the first question raised by Silverman (2005) by treating the interview responses as a construction of a past, current and an assumed experience without any restrictions on his current experience. The questions of the interview should reflect this direction.
- Does interview data really help the researcher in addressing the topic? The prime concern of the researcher is to explore how suppliers and distributors react to

dyadic risks. The researcher is not interested in collecting numerical information that is statistically explained, but in gathering specific insights pertaining to current and expected risk mitigation strategies from both members of the dyad. Moreover, the researcher is concerned with examining how respondents react to topics like trust and collaboration.

- Is the researcher making large claims about the research? The interview is guided by a considerable literature review, which in itself has contributed to restricting some of the claims, keeping in mind that the researcher has practical experience in the topic under investigation. Both considerations are used by the researcher to frame the interview and confine it to the material being explored.
- How is the evidence collected? The researcher distinguishes between data and evidence. Data is a form of information such as interview transcripts, whereas evidence is specific data that supports a certain proposition (Thomas, 2011). By using interview techniques, the researcher is able to gather evidence linking the theory to reality. How and why questions are used to obtain clarity about the evidence being gathered. The interview technique helps in divulging evidence through an interactive approach between the interviewer and the interviewee.

The above recommendations justify why the researcher opted for a semi structured data collection method. Such a method will help in structuring some of the issues suggested by the literature review while giving the freedom to explore specific insights that are brought up during the discussion (Thomas, 2011).

3.4.2 About semi structured interviews

The success of a semi structured interview method relies on the researcher's level of preparation before conducting the interview and on his technical skills during the interview stage. Researchers who hold interviews when unprepared and untrained will fail to conduct effective interview meetings or gather insightful information. The interview method was used to collect data for the research. During the preparation phase, the researcher should focus on the main objectives that should be met during the interview. Data collected should aim at answering the research questions and provide deeper understanding of the propositions raised by the research.

As the author has adopted a case study methodology, it is important to keep in mind that some important features of case study research are to establish cause and effect relationships, observe effects in real contexts, and recognise that the context is a powerful determinant of both causes and effects (Cohen *et al.*, 2007). The failure to connect the selected method (semi structured interview) with the chosen methodology (case study) leads to a disruption in the research process since the method refers to techniques and procedures used in the data gathering process and the methodology aim is to describe approaches to the paradigms of the research (Kaplan, 1964).

Semi structured interviews should also consider other objectives that are as important as the main ones: understanding the dyadic case from different angles (supplier and distributor) and being able to compare the case to other similar or different cases. Qualitative, less structured, word-based, and open-ended questionnaires help meet these objectives as they are able to capture the specificity of a particular situation given the experience of the interviewee (Cohen *et al.*, 2007). They also help understand the why and the how factors behind the phenomenon, which guided the epistemological stance of the author, as covered earlier. As a good share of the qualitative data collected is analysed in congruence with the data collection phase (during or shortly after each interview), the management of the interview must be well structured even if an unstructured method is being adopted. Interview guides are used in semi structured interviews to organise the flow of the questions (Cohen *et al.*, 2007) given the time granted by the interviewees.

To ensure that the interview schedule covers all areas concerned with the research topic as suggested by qualitative researchers (Yin, 2003; Creswell, 2007), the researcher shared the interview schedule with professional (senior consultant) experts in the field. The feedback received, coupled with Silverman's five considerations, contributed to refining the interview schedule while ensuring that most angles of the phenomenon being explored could be covered in a one hour interview. The time is considered to be fair taking into account the type of the sample being targeted. It is worth noting that some interviews lasted two hours due to the interviewees' interest in the topic explored.

The interview guide must include questions that help the researcher capture valuable insights associated with the propositions raised by the research. The interview guide developed for the research is presented in Appendix I.

It is very important for an interview research guide to be designed to meet the propositions derived from the theory. Table 3.3 links the questions asked in the interview guide to the relevant propositions and the themes associated with each proposition.

	Theory	Authors	Propositions	Questions	Themes (probing)
Dyadic Risks	Agency Theory Transaction Cost Economics Theory	Williamson (1975;1979;1981; 1985).	P1: FMCG suppliers in the Middle East who outsource sales and distribution activities to distributors are negatively affected by dyadic risks. P2: FMCG distributors in the Middle East are negatively affected by dyadic risks.	1 -What are the risks that affect your sales and distribution model ?	- Opportunism - Control actual price to trade - Control actual trade funds - Control actual Cost to serve - Control actual distributor Margin - Information Sharing - Dependency on supplier (if interviewee is a distributor)
				2 -How do you evaluate the impacts of those risks on suppliers and distributors?	-Growth acceleration -Cost optimization - Quality of Execution - Uncertainty (Focus distributor)
Dyadic Risk Mitigation Strategies	Suppliers: Transactional Approach	Eisenhardt (1985;1989), Alchian and Demstet (1972), Jensen and Mekling (1976).	P3:FMCG suppliers in the Middle East mitigate dyadic risks by deploying a formal control system with distributors. P4: FMCG suppliers in the Middle East mitigate dyadic risks by partially integrating their sales and distribution activities with their distributors. P5: FMCG suppliers in the Middle East mitigate dyadic risks by vertically integrating their sales and distribution activities without considering the role of their distributors.	3 -What type of arrangement with your distributor will allow you to mitigate those risks?	-Fixed price contract, with or without incentives -Costplus contract, with or without incentives -Information system
				4 -What type of capabilities do you prefer to control directly?	-Integration of Key Account Managers -Integration of Regional Managers -Process and System Integration
				5 -What type of capabilities do you prefer to keep with your distributor?	- Outsource of Sales Execution: Modern Trade - Outsource of Sales Execution: Traditional Trade - Outsource Invoicing - Outsource Logistics
				6 -What are the risks that you associate to the integration of the sales and distribution activities?	-Financial risks - Costs of integration versus cost of outsource
	Suppliers & Distributors: Relational Approach	Macneil (1974; 1980; 1983; 1987)	P6: The development of trust between suppliers and distributors contributes to mitigating dyadic risks.	7 -What contributes to the development of trust between suppliers and distributors?	-Fair margins -Investments in human assets -Investments in physical assets -Investments in systems -Transparency
				8 -What role does trust play in the relationship between suppliers and distributors?	- Importance of trust - Substitute/compliment formal contract - Substitute/compliment integration
				9 -How do you evaluate the level of trust with your supplier/distributor	-Low level - Moderate level - High level
	Distributors: Evolutionary Approach	Teece et al. (1997); Nelson and Winter (1982; 2002)	P7: FMCG distributors in the Middle East mitigate dyadic risks through A-specialization and B- diversification strategies.	10 - How do you think distributors can mitigate dependency risks?	-Logistics and other services Specialization
				11 - Can you elaborate on the specialization strategies you are considering?	-Channel Specialization -Regional Specialization
	Suppliers & Distributors: Evolutionary approach: Closing Questions Teece et al. (1997); Nelson and Winter (1982; 2002)			12 -Can you elaborate on the diversification strategies you are considering?	-Geographical Expansion -Manufacturing -Retail
13 -How do you see the evolution of the sales and distribution models in the Middle East?				-Supplier trends: Integration versus outsource - Distributor trends: specialization versus diversification	
14 -In your view, what best describes a competitive sales and distribution model?				-General validation question	

Table 3.3. Interview guideline development

To organise the data gathered from interviews and keep track of key messages shared, the researcher designed a data summary report updated at the end of each interview. This report captures considerable impressions and reflections, making them available for further reflections and analysis (Miles *et al.*, 2013). After covering the data collection methods used in this research, the section that follows focuses on the target sample to collect the data from.

3.4.3 Sampling strategy

Collecting data from case study participants is a time consuming and challenging process (Cavaye, 1996). A key feature of multiple case studies is the specificity of the sample selected. Case study research usually includes two levels of sampling. The first level, which relates to selecting the case, was covered in the methodology section, and the second level, which covers the sample within the case, will be examined in the following section.

The sample within the case should assist in understanding the phenomenon and proposing strategic insights pertaining to the exploration of issues and opportunities. Qualitative research adopts a purposeful sampling strategy. The selected sample aims at serving a specific and defined purpose; the statistical representation of the sample is not of importance (Ritchie *et al.*, 2003). Purposeful sampling entails setting criteria that are related to the purpose of the research (Given, 2008). The sample is collected from information rich cases for in-depth study. Below are common types of purposeful sampling presented in the literature (Given, 2008):

- Extreme and deviant case sampling: refers to studying bipolar samples such as examining management style in an organisation that did exceptionally well, and in another that did exceptionally poorly.
- Typical case sampling: includes cases that are not unusual in any way. An example would be examining a common business issue in a specific organisation, such as how employees interact to resolve a communication issue.
- Theory based sampling: refers to the theory testing approach, where the sample selected is based on its ability to interpret the propositions deduced from the theory. Theory based sampling can overlap with other purposeful sampling techniques.

- Paradigmatic case sampling: refers to benchmark or exemplar samples to particular cases. An example is the study of information system implementation in organisations known for adopting specific and renowned technologies. Another example could be the study of a franchising agreement.
- Stakeholder sampling: is mostly adaptable in evaluation research and in some policy analysis cases. It consists of identifying key stakeholders directly involved in one of the steps in the case evaluation process.
- Maximum variation sampling: the sample is composed of individuals or cases covering a multi-dimensional perspective of the phenomenon under study and generally includes typical and extreme sampling.
- Criteria sampling: refers to cases or individuals that meet specific criteria.
- Expert sampling: includes individuals that are expert in the related field who can add value in advancing the researcher's interest, paving the way for potentially new research possibilities.
- Disconfirming or negative case sampling: includes searching for cases that do not conform with the known reality, whether inductive or deductive.

The procedure used to determine the purposeful sampling strategy most adaptable to the research question depends on the study under exploration and the ability to access the sample. As noted by Given (2008), the researcher has to think of the person, place, or situation that has the largest potential for advancing the understanding of the research. The researcher aims at understanding the experience of individuals directly concerned with the supplier distributor relationship. The richer the experience, the more valuable the insights collected for the research. Expert sampling is the most relevant purposeful type of sampling for this study.

Expert sampling entails seeking key informants within the cases targeted by the research. This sampling strategy is considered to be reliable when examining the perception of decision makers (Robson and Foster, 1989). Jennings (1964) presents three categories of key informants. The first one is the economically dominant category, consisting of business leaders occupying major economic positions in the community. The second is the prescribed influential category and includes civic leaders for example, who hold formal positions designed to sanction and facilitate influence in the

community. The attributed influential comprises the last category and consists of community members perceived to be influential in the community. The economically dominant are considered to be reliable in providing organisational data (Seidler, 1974). They are capable of understanding the strategic implications of the organisational context and are aware of current and future challenges that an organisation might face. Parcel *et al.* (1991) consider CEOs and General Managers as the most reliable informants. However, due to the difficulty of achieving a high response rate from CEOs in large organisations, other senior executives that hold strategic decision making positions can be considered as key informants (Gupta *et al.*, 2000).

The investigation will thus be limited to key senior managers who have influence on the supplier distributor relationship and have an in depth awareness of the strategic issues affecting the organisation and the risks involved. This includes CEOs, general managers, regional sales directors, and country managers. As noted earlier, the sample will include key informants from suppliers and distributor organisations, which would help cover the topic from different perspectives, a key advantage of multiple case study research (Dooley, 2002). This is deemed necessary as the research is exploring a dyadic relationship.

The research targets a total of 30 key informants allocated by dyadic case and by country. For each dyadic case, two key informants were targeted and a semi structured interview was held with the supplier and another with the distributor. Although more managers could have been targeted, the researcher decided to limit the sample size in order to avoid deviation from the phenomenon being explored and respect the boundaries set for the research (Yin, 2003). It should be noted that the selected sample takes into account the expectation that case study research requires an average of six participants (Yin, 2003) and grounded theory between 30 and 50 participants (Morse, 1994).

Managers were sorted following their current and previous experiences using the LinkedIn web portal. It should be noted that five test interviews have been conducted with senior FMCG experts to refine and validate the research guideline, as noted earlier.

Table 3.4 displays the job positions held by the key informants targeted by the research and their split across the three contexts and by dyadic case.

Position	Industry	Experience	IRAQ			UAE					KSA					Total	Test*	
			Case 1	Case 2	Case 3	Case 4	Case 5	Case 6	Case 7	Case 8	Case 9	Case 10	Case 11	Case 12	Case 13			Case 14
Consultant	FMCG	25 Year+															0	2
CEO	FMCG	25 Year+	1					1	1	1	1	1	1				8	
Managing Director	FMCG	25 Year+		1													1	
Vice President	FMCG	20 Year+											1				1	1
General Manager	FMCG	15-20 Years	1		1	1	1		1		1	1	1	1	2		12	2
Regional Sales Director	FMCG	15-20 Years				1	1	1		1							4	
Business Development Director	FMCG	15-20 Years													1		1	
Country Manager	FMCG	10-15 Years		1										1			2	
Franchise Director	FMCG	10-15 Years			1												1	
Interviews by case			2	2	2	2	2	2	2	2	2	2	2	2	2	2	30	5

*Test Interviews: conducted with senior FMCG experts to validate research guidelines and themes

Table 3.4. Key Informants' Profile

The table shows that most of the key informants who participated in this research have more than 15 years of experience in the FMCG industry. The research deliberately covered interviews with senior experts (CEOs and vice presidents) in UAE and KSA, as both countries are witnessing an evolutionary channel environment, which could reveal how FMCG leaders (suppliers and distributors) are adapting their dyadic relationships to these changes. Figure 3.9 shows that 23% of the interviewed participants are CEOs with more than 25 years of experience in the FMCG industry, and 40% are general managers with 15 to 20 years of experience in the FMCG industry. The other participants are managing directors, vice presidents, regional sales directors, business development directors, country managers and franchise directors.

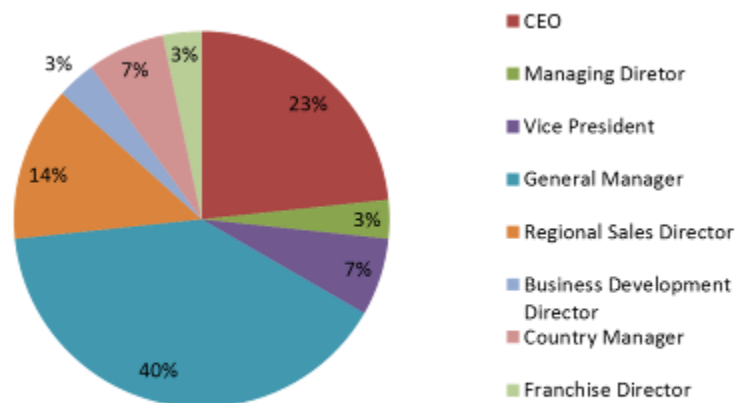


Figure 3.9. Allocation of key informants by position

3.4.4 Management process to gather the data

This type of research requires a specific management process due to the following constraints:

- Accessibility to senior managers: especially since the researcher has excluded managers within his professional scope.
- Financial budget: the field research requires several trips to the targeted countries, thus substantial financial costs were incurred including travel, accommodation, and transportation costs.
- Time: because the project was not on a full time basis, managing thirty appointments with senior professionals required dedicated administrative time management.

Such complexities are acknowledged by qualitative researchers (Yin, 2003; Creswell, 2007). To overcome these constraints the researcher adopted the following road map (see Figure 3.10).

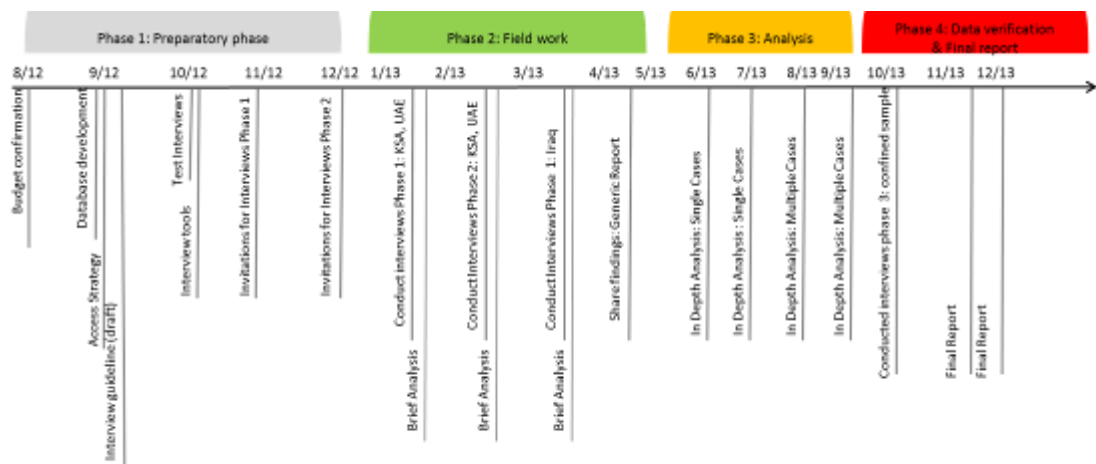


Figure 3.10. Analytical Road Map

The preparatory phase is the most crucial phase in this type of research as it leads to effective fieldwork management. The most feasible option for the researcher was to request that his fieldwork be financed by his employer (supplier type organisation). This entailed formulating a project proposal showing the benefits for the employer and the funds required to support the field research. One of the researcher's responsibilities includes driving the evolution of the various distributors across the Middle East. Therefore, this research was positioned as a step in building an appropriate risk culture with distributors, thus enhancing awareness of the upcoming risks affecting distributors

in the Middle East. By building this awareness, distributors may gain valuable knowledge pertaining to the most common risk mitigation strategies. This will allow them to transform their model with lower levels of uncertainty. This positioning was positively welcomed by the Vice President of the organisation, and a budget was allocated to conduct the field research and share the generic findings in a dedicated seminar. The sharing of the generic findings is essential to protect the interests of the companies interviewed. Ethics in this type of work is of primary importance (Yin, 2003).

While developing the database for the experts targeted by the sample, the researcher took into account the possibility of low response rates as the targeted participants do not fall within the professional scope of the researcher. He thus cannot rely on distributors within his workplace. Some participants might not be open to sharing such information and/or might resist recording the interview. Such factors are common to in-depth interview techniques. The researcher needs to ensure that his sampling plan is feasible in terms of cost, time, and compatibility with the research objectives (Miles and Huberman, 1994). To secure 35 confirmed interviews (including the five pilot interviews to refine the interview guide), a database of 60 participants was built, all of which fit with the sample criteria set for the study. The participants were sourced through personal friends, who helped facilitate access to certain contacts. The researcher used the LinkedIn online network to search for contacts within the sample criteria. The researcher also registered with special FMCG community groups on LinkedIn, which helped him interact and identify relevant participants and influencers.

Thirty five out of the 60 contacted participants confirmed their participation in this research following the interview schedule proposed. A 55% response rate is considered acceptable as long as the minimum target set for the research is achieved, noting that qualitative research does not emphasise the size of the sample as much as it stresses the depth of the insights gathered. Other contacted participants, who showed interest but were not available for interviews due to travel constraints, were kept as replacements in case any of the 35 participants cancelled the interview at the last minute for unforeseen reasons. This strategy proved effective, especially since the researcher was faced with three cancellations during the interview process.

After inviting all the participants, the researcher was ready to proceed with the interview following the timetable presented in Table 3.5.

Month	Interview	Phase
January/2013	KSA and UAE: Round 1	2
Feb/2013	KSA and UAE: Round 2	2
March/2013	Iraq: Round 1	2
October/2013	Confined sample: Round 3	3

Table 3.5. Time Table of Interviews

It is very important to note that the data analysis phase in semi-structured interviews is congruent with the data collection phase (Mile *et al.*, 2013). The researcher ensured that all key findings were synthesised by the end of each interview. A brief case study report was kept as a reference to be used in the formal analysis phase (Phases 3 and 4, Figure 3.10).

3.4.5 Data analysis

It is strongly advised that qualitative data be analysed in harmony with the data collection process (Miles *et al.*, 2013). The previous section showed how data collection and data analysis processes are interrelated in Phases 2, 3, and 4. Data collection took eight weeks approximately; however, the analysis took a total of 25 weeks. Data processing and management generally require three to five times the time needed to collect the data (Miles *et al.*, 2013). While conducting the analysis, the researcher should differentiate qualitative from quantitative data analysis. As noted by Patton (2002), qualitative data analysis has to consider the following:

- A focus on hidden meanings rather than on quantifiable observable phenomena.
- In-depth analysis without relying on specific categories and pre-determined variables.
- The sensitivity to the context rather than seeking a universal generalisation.
- The role of the researcher while conducting the analysis rather than assuming a value-free inquiry.
- The collection of substantial data for a limited number of cases instead of limited data for numerous cases.

- The aim of describing what is happening in the world and the reasons behind it rather than measuring specific variables based on what is already known.

The researcher followed the four steps proposed by Miles and Huberman (1994) to analyse the data collected, illustrated in the framework below.

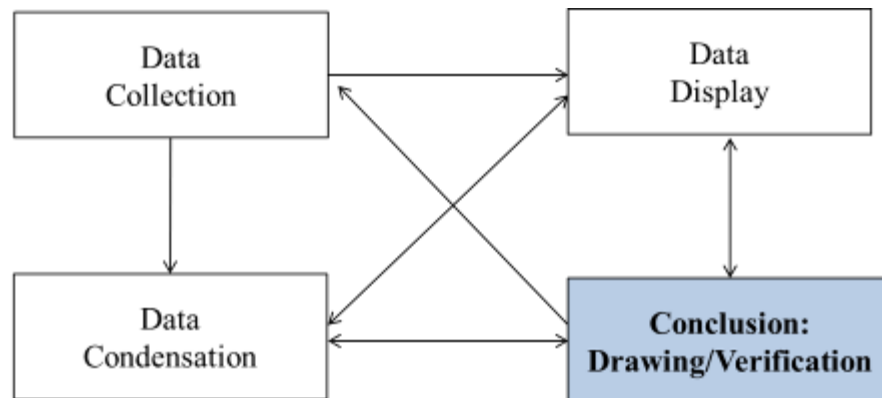


Figure 3.11. Data Analysis Process

This framework shows that qualitative data analysis follows a dynamic process, where the analysis of data occurs concurrently with the collection of data, as highlighted earlier. Conclusions are drawn and verified by going back to the data collection phase. The researcher adopted the same approach, where data is collected and concurrently analysed in Phases 2 and 3, and later verified in Phase 4.

Even if the number of cases is limited, the amount of data collected from in-depth interviews is substantial. For this research, the transcription of a one hour interview resulted in a word document of 25 to 30 single spaced pages. A total of 50 hours of interview time were transcribed (see: <http://www.transcriptionstar.com/services.html>) leading to a document comprising 1,350 pages organised by case. Some comments have been given in Arabic, which required translation and cleaning. To manage this load of analytical material, Miles *et al.* (2013) propose condensing the data collected. This phase has also been referred to as the data reduction phase. However, the researcher decided not to use this expression as it might potentially imply that some data might have been lost in the process (Miles *et al.*, 2013).

Data condensation is defined as the process of selecting, focusing, simplifying, abstracting, and transforming data that appear in interview transcripts (Miles *et al.*, 2013). In this research, and similar to other studies that followed the same approach, data condensation started long before the data collection phase.

Data condensation takes the form of writing summaries, coding, developing themes, generating categories and writing analytical memos (Miles *et al.*, 2013). As illustrated earlier in Figure 3.11, the two sided arrow between data condensation and conclusion drawing implies that data condensation is an on-going process that only ends when the findings have been reached. Data condensation is an integrated part of the analytical process, where the researcher sharpens, focuses, and organises the data in a way that allows for final conclusions to be drawn and verified (Miles *et al.*, 2013).

Coding is considered to be at the core of the data condensation stage. It is the critical link between data collection and the meanings assigned to this data (Miles *et al.*, 2013). Since the prime qualitative data to be analysed is textual (after being transcribed), the words have been refined from their original version for a more comprehensive analysis. Codes are used not only to simplify the qualitative analytical process, but to guide the researcher towards the propositions that he intends to explore and the hidden meanings that he aims to uncover. From a constructionist perspective, codes help uncover meanings that are hidden in the text. These meanings are associated with the perception of individuals and might be influenced by the subjective belief of the researcher.

In most cases, codes are words or short phrases that symbolically assign a summative, relevant, essence-capturing, and/or evocative attribute to a portion of language-based or visual data (Saldana, 2013). The major types of codes used for this research are presented below, following the recommendation of Miles *et al.* (2013):

- **Descriptive coding:** is a code generated by the researcher. It can be a word or a short sentence that aims at summarizing the basic topic of a short paragraph. The current research uses descriptive coding mainly to organise and sort data into specific topics. Descriptive codes assist in consolidating the mass of data into an inventory of topics. It also helps exclude data not deemed relevant to the objective of the research and hence will not be used in the conclusion phase. The

descriptive codes are self-generated by the researcher and can be predetermined following the propositions that were previously identified.

- In-vivo coding: is a common code adopted by qualitative researchers as it uses the interviewee's own language and records it as a code. In-vivo coding helps uncover the meanings that participants assign to certain topics and helps in understanding how individuals perceive and react to specific matters. In-vivo coding was the prime coding mechanism used as a result of the researcher's interest in using the participants' own words in interpreting a specific topic. Reference to the participants' own words is very important as the research assumes that suppliers and agents might have a different interpretation of the same phenomenon. Suppliers and distributors may use different words and terminology in interpreting the notion of risk and trust, which might influence the whole meaning during the analysis phase. In-vivo coding also assists in the detection of specific patterns in the text; the frequent use of the same word for instance might lead to substantial pointers. In-vivo codings are placed in quotation marks to be differentiated from the researcher's generated codes in the analysis section.
- Proposition coding: This research explores seven propositions that have been derived from the theory. Specific themes associated with the proposition have been identified to explore each proposition. To have a focused analysis the researcher has integrated these themes in the research guideline. This will help in analysing the reaction of the interviewee to the themes and will assist in exploring the applicability of the theme to the case. Saldana (2013) differentiates between first cycle and second cycle coding. While performing the analysis, the researcher might realise that a set of codes (first cycle codes) can be regrouped under one code (2nd cycle codes). Some codes associated with the proposition may also emerge from the interviews, a major feature of inductive research. Hypothesis coding is thus supported by secondary thematic coding, which helps in uncovering specific themes that emerge from interviews.

NVivo 10 (see: http://www.qsrinternational.com/products_nvivo.aspx) was used to analyse the condensed data based on the above mentioned coding assigned following

the literature review and thematic codes that emerged from interviews (Miles *et al.*, 2013). Screenshots of NVivo are presented in Appendix II.

The data condensed is then displayed. A display is an organised and compressed assembly of information that allows for conclusion drawings and resulting actions (Miles *et al.*, 2013). Extended texts were previously used as data display mechanisms. A 1,000 page document is complicated in itself, especially since the information is dispersed and non-structured. Moreover, extended testing overloads the information processing capability of the researcher, especially because humans are limited in processing large amounts of information (Miles *et al.*, 2013). Some information might be missed for simplification purposes. Following the recommendation of Miles *et al.* (2013), the researcher used different types of tables to analyse the data. It is up to the researcher to decide the design of the display following the conclusions expected to be drawn. Displays can also be considered to be a form of data condensation (Miles *et al.*, 2013). The display tables used by the researcher aimed at gathering relevant evidence for each proposition. They were filled in at the end of each interview as part of the interview summary report conducted to analyse each case.

A multiple case analysis entails analysing each individual case individually, then examining the similarities and differences between the cases (Yin, 2003). After examining the relevance of the themes for each case, a cross analysis was conducted between the cases that are similar and those that are different.

Table 3.6 shows, for instance, the data display table used to explore P4. The researcher used this table to reconfirm the main themes discussed during the interview and to validate the emergence of the new themes. These tables were helpful in summarizing insights from the interviewees and were efficient, specifically in interviews that faced some timing restrictions.

Risk mitigation strategies - Partial Integrated Cases – Relevant Codes													
Dyadic Cases	Country	Integration of Key Account Managers	Integration of Regional Managers	Process and System Integration	Trust	Outsource of Sales Execution: Modern Trade	Outsource of Sales Execution: Traditional Trade	Outsource Invoicing	Outsource Logistics	Other	Other	Other	Other
1	Iraq	✓	Ⓜ										
...	...												
...	...												
Dyadic Member		Supplier	Both										

Example

Table 3.6. Example of Data Display Table

The condensation and the display of qualitative data as recommended by the framework of Miles and Huberman (1994) are integral parts of the analytical process. The conclusions are vague at first, but become clearer and more focused as the process develops (Miles *et al.*, 2013). The final conclusion only appears at the end of the data collection, condensation, and display phases. Interpretivists are interested in thoroughly exploring a few cases, instead of skimming through several cases.

As explored in the research design section, data has to be verified. Verification may be brief, or thorough, or it may aim at replicating the findings to another data set (Miles *et al.*, 2013). The analysis of the similarities and differences, and the use of literal and theoretical replication, have served in verifying the conclusions. In addition, the researcher verified the findings in Phase 4 by exploring the key conclusions with a confined sample composed of experts who are either CEOs or General Managers.

This final verification aims at confirming the sturdiness, plausibility, conformability, and validity of the conclusions drawn (Miles *et al.*, 2013). It will also confirm whether it is necessary or not to go back to the theory in order to review some of the suggested propositions (Yin, 2003).

3.5 Foreseen Practical Problems from Chosen Methodology

To present stronger evidence and reduce bias, it is preferable to use more than one method in case study research (Yin, 2003). In a single case study, the use of multiple methods might be feasible as the researcher will select the cases that give him accessibility to multiple sources of data. The firms that resist information sharing will not be considered in the scope of the single case study research. The selected firm that provides such information is aware that no other firms are involved in the research so there is no risk of information leakage. The choice of exploring multiple cases was based on the difficulty of combining multiple methods to focus on a single case in the Middle East. As shown in Section 1.2.2, the researcher is bound to face cultural obstacles associated with information sharing. This was confirmed after several unsuccessful trials that drove the researcher to rely mainly on gathering data from the interviews conducted with senior executives. The strategy of gathering interview data

from 15 cases of 30 FMCG companies (suppliers and distributors) in the Middle East provides as solid evidence as had multiple methods been used. Interviews were conducted with people from different firms, hence the data gathered is a result of multiple sources that need not share the same opinion. The researcher did not get rival opinions haphazardly, but had planned for them prior to and during each conducted interview. The theoretical background discussed in Sections 2.2.1 and 2.3.1 helped the researcher orient the discussion during the interview to be able to understand the similarities and differences between various views.

The objective of using more than one method of data collection is to reduce bias and reinforce the findings. The same objective was reached by conducting multiple cases and checking for rival opinions due to the complexity of adopting more than one method. This does not mean that the researcher did not refer to secondary data collection strategies at all. For some propositions (P6 and P7), the websites of the firms being explored were used to demonstrate how suppliers and distributors emphasise the notion of trust in their values. The websites of distributors who participated in the multiple cases analysed have been used to gather evidence associated with the specialized roles of distributors.

Another limitation is associated with the number of interviews conducted with each firm. In a normal context, it is advisable to interview more than one person in the same firm to be able to highlight different views, thus enriching the data gathered. Given the profile of the participants targeted by the research and to minimise associated complexities, the researcher conducted one interview in each firm.

As noted in Section 3.4.3, the sample targeted by the research is composed of senior staff. The topic deals with senior strategic issues associated with outsourcing and integration of essential activities across the supply chain. In the Middle East, these decisions are not managed by supply chain managers, relationship managers, or other operational managers but are centralized with top management in most cases. In certain cases, the relationship between suppliers and distributors is managed on two hierarchal levels: top management and operational management. This research does not explore the day to day friction that exists between the management team from either side of the

relationship, but is concerned with the risks that affect the relationship as a whole. Gathering data from executives who set the dyadic risks mitigation strategies brings more valuable insights than having more than one interview in each firm.

The attempt to conduct more than one interview in each firm may lead to further complexities; a senior executive interviewed might feel undermined or offended if the researcher asks to have other interviews with middle management. Moreover, the researcher would need to justify to top management why more than one interview is needed, manage resistance as well as the risk of obstructing the whole interview process. Such complexities could have been managed if the research only focused on one case, which is not the case in this research.

3.6 Ethical Considerations

Strict ethical attention has been considered during the course of the research. The prime concern of the researcher is to assure the firms interviewed that the data shared will not be used outside the scope of the research.

Potential ethical issues must be avoided in the process of collecting, analysing, and communicating the data. An important concept when considering the ethics of research is that of consent (Thomas, 2011). To tackle this concept, the researcher must consider the following questions (Thomas, 2011):

- Who is the research benefiting?
- Do you have the right to take up people's time and energy?
- Is there any possible discomfort that participants will have to experience?
- Are you invading participants' privacy?
- Are you compromising your participants' standing of whatever kind in their communities?

Thomas (2011) distinguishes between "*opted in*" and "*implied*" consent. Opting in consent is when participants actively indicate their willingness to take part in the research. Implied consent is when the researcher assumes that the participants will give their consent as soon as they are informed about the research.

A decision was made to address these questions from the very beginning of the research process. An access strategy was adopted by the researcher that focused on the ethical matters that must be considered to avoid any issue that may put the quality of the research into jeopardy.

The researcher clearly informed interviewees about the purpose and nature of the research, and assured them about the confidentiality of the information shared. A signed invitation letter was sent to all participants highlighting the objectives of the research, its scope, and benefits (See Appendix III). The letter also indicated that this research is for academic purposes and the interview would be recorded and that information shared would not be used beyond the scope of the research.

To ensure ‘opted-in’ consent the researcher scheduled a telephone call with each target participant. Although such action was time consuming and caused some delays in starting the fieldwork, it proved very effective and a prime contributor to building assurance. The researcher was able to clarify in the call the content of the research and reiterate his purpose.

To safeguard participants, a hard copy of the same letter was given to each participant prior to the start of the interview and an appreciation note was sent following each interview. A summary of the main topics to be discussed during the interview was also sent to interviewees two days prior to the scheduled interview date. A copy of this letter is presented in Appendix IV.

As presented in Section 3.4.1, the researcher conducted five pilot interviews in order to amend the interview guidelines if necessary, and gain experience in conducting interviews in terms of communication and time management. This step helped the researcher simplify certain terminology (such as the notion of asset specificity) that the participants may not be familiar with.

It is also important to note that communication with participants emphasised that this research is being conducted for academic purposes and aims at adding to existing

knowledge (practical and theoretical). Such transparency has been adopted during all the course of the research.

Chapter 4. Discussion of Results

This chapter discusses the results of the 15 multiple cases analysed, and is divided into seven subsections, presenting the findings relative to each proposition.

4.1 Dyadic Risks Affecting Suppliers

P1: FMCG suppliers in the Middle East who outsource sales and distribution activities to distributors are negatively affected by dyadic risks.

Interviewees from the supplier side confirm that dyadic risks have substantial implications for their ability to optimise their performance. The diverse implications of dyadic risks are a consequence of variations in the complexity (control actual price to trade and cost to serve), programmability (capability of the sales teams, quality of execution), information asymmetry (control actual distributor margin, information sharing, alignment on objectives and strategies), and investment intensity (control actual trade funds) of sales and distribution activities.

4.1.1 Issues of control

Friction emerged between the supplier in Case 14 and his distributor when the former took the decision to place himself closer to the market by establishing an office in KSA. The supplier became aware of the prices invoiced to trade and the actual costs incurred in the market, thus recognizing that the distributor is making an actual margin that is much higher than the margin initially agreed on.

“When we [the supplier] were managing the business from a distance, we did not know what was happening...but when we deployed a Country Manager in KSA, he was able to see what was going wrong in the business. The friction with the distributor increased when we discovered that he was making higher margins by selling at prices higher than the recommended ones.” (Interview, Supplier KSA).

Suppliers outsourcing their sales and distribution activities do not directly invoice to trade. Their role ends by recommending an invoiced price, beyond which they have no (or limited) means to control the actual price invoiced to trade by distributors. As predicted by the agency theory, a distributor can benefit from this situation to act opportunistically, thus increasing the probability of dyadic risks occurring. The opportunistic behaviour is operationalised by invoicing to trade at higher prices, thus achieving higher margins than anticipated. This situation is widespread in the Middle East, and was observed in 11 out of the 15 cases examined. Dyadic risks also arise due to the supplier's inability to control the actual costs incurred by the distributor. Several cases explored exhibited distributors committing to deploying certain capabilities on paper that were not actually sustained in reality.

"We always thought that he had this number of vans, but when we started going into the details of the information we discovered that the number of vans was much lower than our expectations." (Interview, Supplier KSA).

"A distributor can say that he has a dedicated team but how can you make sure that this team is actually dedicated, how can you control it?" (Interview, Supplier UAE).

A distributor lowering costs at the expense of capabilities expected to be deployed to meet the channel needs is considered to be acting opportunistically. However, if the distributor is optimizing costs without affecting capabilities required to drive the business, then this behaviour is interpreted differently. Issues associated with the inability to control the actual costs of distributors have been observed in many cases (Cases 6, 7, 8, 10, 11, and 15). Suppliers were more concerned with capabilities deployed rather than costs incurred. These dyadic cases provide tangible evidence of how distributors can turn information asymmetry to their own benefit. Distributors hide information related to actual costs incurred in the market as well as prices invoiced to trade in order to conceal the fact that they are making higher margins. The inability to control the capabilities deployed in each channel and the associated actual costs incurred hindered suppliers from accelerating their growth, leading to severe loss in market share (Cases 13, 14).

“We were growing lower than market growth; our market share for the past two years is on downward trends.” (Interview, Supplier KSA).

4.1.2 Alignment on objectives

Dyadic risks also arise from misalignment on objectives and strategies. This theme emerged from interviews conducted with suppliers in Cases 6, 8, 11 and 14.

“They [the distributor] were not focusing on the right channels. They were doing things without aligning with us, we had different agendas” (Interview, Supplier KSA).

When digging more with the interviewee into these different agendas the consequences of dyadic risks were emphasised.

“Our [the supplier] agenda was to grow the business, his [the distributor] agenda was to sell as much as possible and with the least amount of costs incurred, to take as much marketing money as possible and improve his profit margin” (Interview, Supplier KSA).

The situation becomes more severe when the opportunistic behaviour of the distributor starts to affect the supplier’s competitive positioning in the market.

“Competition is increasing, everyone is becoming more active in the market ... I [The Supplier] know that to improve my performance, I need to increase my coverage but the distributor is resisting investing in additional vans.”(Interview, Supplier KSA).

A misalignment on objectives and strategies may put the entire relationship at risk. The fact that a supplier feels trapped in a dyadic relationship by obligation rather than by conviction has negative implications for the relationship.

“You [the supplier] cannot divorce them [the distributor], even if you no longer love them. You still need them because the foreign investment law does not allow you to operate on your own.” (Interview, Supplier KSA).

This suggests that as soon as laws and regulations become more flexible, a supplier might terminate the relationship instantaneously, as witnessed in Cases 11, 13, and 14.

4.1.3 Information sharing

Case 13 is a typical example of information asymmetry between suppliers and distributors.

“Our previous distributor was simply refusing to give us [the supplier] detailed information ... We had visibility over the macro sales figures only ... but when we asked for more details, we were facing an unjustified resistance” (Interview, Supplier KSA).

According to insights gathered, the reasons that drive a distributor to hide information do not only relate to the self-interest behaviour of the distributor, but also to the mentality of the distributor and the way information is perceived.

“If I am a distributor, for me information is power, and giving out this information is like giving out part of my power” (Interview, Distributor KSA).

According to a general manager interviewed, this is the mentality of an old school distributor who believes that controlling information ensures the supplier’s dependency on him. Such a distributor does not mind sharing sales information at the total country level, but refuses to give sales information by channel or at the customer level as this might highlight some weaknesses in his operations.

“If we [the supplier] know such information, there is a possibility that we use it against them, by challenging the way they do things.” (Interview, Supplier UAE).

Five cases explored (Cases 6, 7, 8, 10, and 11) show how distributors use information asymmetry to preserve a powerful role, which can be a self-destructive act, and the supplier’s performance in the market is affected.

“We [the supplier] were giving the distributor a budget that has to be invested in the trade, but we did not have any visibility over how the money was being spent. The distributor refused to give us a copy of contracts with retailers; with the rise of modern trade and the continuous inflation of costs, we could no longer tolerate such behaviour.” (Interview, Supplier UAE).

“The inability to control information means a difficulty in achieving an accurate forecast, which puts all the supply planning at risk... we sell food products with expiry dates in a vast market and in unconventional climatic conditions. How can we grow further if we are not able to forecast precisely?” (Interview, Supplier KSA).

It is not accurate to assume that distributors are open to unconditionally sharing all sorts of information, as has been concluded from most interviews conducted. However, some distributors did not object to being open with their suppliers as long as openness is mutual.

“If my supplier asks me to share information about costs, such as working on a certain project to improve efficiency, I do not mind sharing it if the benefits are mutual.” (Interview, Distributor UAE).

“I mean we expect our customers to be open to us and give us information, we must therefore understand when our suppliers ask information from us; we are their customers.” (Interview, Distributor UAE).

4.1.4 Level of focus and dedicated capabilities

Some suppliers were dealing with big well established distributors in the regions, who lacked the required focus.

“We [the supplier] felt diluted in his [the distributor] portfolio. His main interest was to drive the beverage business while our interest was to grow our own business.” (Interview, Supplier KSA).

This dyadic case shows that it is not enough to choose a leading distributor, if the supplier is not receiving the right attention and focus. The lack of dedicated capabilities and the lack of existence of synergy with its distributor’s portfolio blocked the supplier in Case 11 from meeting his growth ambitions.

“We [the supplier] were growing by 15% in a market where we have the potential to

grow by 40%.” (Interview, Supplier KSA).

“We feel like a small fish in a big ocean. The only thing that was dedicated to us was a channel we called Van Sales Operation, which was the only channel where we had certain control, vision, transparency ... In modern trade we do not have any focus and we were drowning in the distributor’s vast portfolio.” (Interview, Supplier KSA).

The supplier from Case 11 reconsidered the relationship with its distributor due to a lack of focus. This theme, which emerged from interviews, has also been observed in other dyadic cases (Cases 3, 6, 7,8,10, and 11).

The supplier in Case 6 was dealing with six distributors in UAE, and is currently reassessing its entire structure to have better control and achieve additional category synergies.

“I [the supplier] do not know very much about the coverage capability, the type of equipment that they use, the information systems they have, and how relevant their portfolio is. In our opinion, we would ideally look at having two distributors in a market like UAE, but with different focus portfolios; one would be very much impulse portfolios, and one would be the destination portfolio. That is very much what we are doing at the moment.” (Interview, Supplier UAE).

These findings reveal that suppliers who outsource their sales and distribution operations are suffering from dyadic risks. Four dyadic cases have decided to discontinue the existing relationships, while the remaining four have given distributors a notice period during which they are required to upgrade their capabilities. This research shows that there are some exceptional dyadic cases where suppliers have accepted living with dyadic risks.

On the other hand, some distributors are highly aware of the importance of giving their suppliers dedicated capabilities. This has been observed in dyadic cases 9, 12 and 15.

“We are aware that our suppliers need focus and dedication, we need to build our capability while making sure to have the right business model that makes each supplier feel important in our portfolio” (Interview, Distributor KSA).

4.1.5 Capability of sales teams and quality of execution

According to the sales director of a supplier interviewed (Case 4), suppliers in UAE pay the highest bill of trade evolution.

“Retailers in UAE realised that it’s not about opening new stores, but rather about attracting more shoppers. In order to do so, they needed to achieve better profits to fund their growth.” (Interview, Supplier UAE).

It is not only about achieving more margins from suppliers, but about gaining better know-how to attract more shoppers and improve the quality of execution.

“There is a strategic need for collaboration between suppliers and retailers to exchange category and shopper expertise ... retailers rely on suppliers profoundly as they are the brand experts.” (Interview, Supplier UAE).

To be able to fully play their role and enhance their collaboration with retailers, suppliers should possess the right capabilities.

“Distributors who cannot cater to the needs of modern trade retailers in terms of capabilities and information systems will find no place in UAE in the future.” (Interview, Supplier UAE).

Distributors realise that controlling the relationship with modern retailers is a source of power.

“They [the distributors] feel privileged knowing everything about the customer... if we go and negotiate and try to build relationships with retailers, then why should we need them anymore?” (Interview, Supplier UAE).

“Because a distributor is fully representing your brand, you will not be taken seriously

within the local retail environment. At times, distributors do not want you to speak to retailers because they are very protective and they want to hold on to this relationship as long as possible.” (Interview, Supplier UAE).

This is not only affecting suppliers’ abilities to control their performance, but also preventing them from gaining category knowledge that can be used to accelerate growth and drive relationships with modern trade retailers.

“The name of the game is: if we are not able to make that change ourselves and evolve with the retailers and deliver on their expectations, then there is a risk of being made obsolete.” (Interview, Supplier UAE).

Managing relationships with international retailers like Carrefour requires a specific level of skills and expertise. As highlighted earlier, suppliers have the advantage of attracting potential talent. To attract the same level of skills, a distributor has to pay higher remuneration, thus achieving lower margins. Distributors who refuse to attract competent capabilities to professionally manage the relationship with key accounts and refuse to share customer-based information are exhibiting opportunistic signals to suppliers.

The suppliers interviewed who do not attain such capabilities are at a disadvantage compared to those who have the best capabilities to deal with international retail customers. Deploying the right capabilities is not only restricted to modern trade channels. Suppliers emphasised the need to have multiple channel expertise, as confirmed by eight cases explored. Four other dyadic cases of suppliers who have not yet reached a detrimental phase with distributors, but are currently exercising pressure to drive them to change, were encountered. A CEO interviewed notes:

“Distributor development is an important risk blocking us [the supplier] from acquiring the necessary capabilities to grow in UAE. We know that we have to either move to a more capable distributor whose cost is going to be higher, or invest in driving the capabilities of our current distributor, who we believe has an inefficient cost structure. We are now verifying our options.” (Interview, Supplier UAE).

“If I'm getting the right quality of execution at the right cost, I will be meeting with the needs of my suppliers, otherwise I will be causing them issues in the market versus their competitors.” (Interview, Distributor KSA).

Suppliers dealing with non-competent distributors realise that their competitors are achieving better results in terms of relationship with retail and quality of execution. On the other hand, distributors who are equipped with the right capabilities are positioned as strategic supply chain partners.

“Our suppliers do the marketing and we are their operational arm in the market. We have a responsibility to drive the competitiveness of our supplier's brands, they count on us in building physical availability as much as we count on them in building mental availability.” (Interview, Distributor UAE).

4.1.6 Cases tolerating dyadic risks

Suppliers, mainly in Iraq, acknowledge the existence of dyadic risks but are not seeking any structural changes, primarily due to the nature of the business in such traditional trade countries.

“In traditional trade countries, you need a minimum amount of systems and infrastructure, because your operation is simplified. You are doing the basics. You are taking this package, putting it on the checkout counter or in the fridge, making sure the stock is available.” (Interview, Supplier Iraq).

In a modern trade country, the above tasks are considered to be basic and suppliers have higher expectations.

“We look at freshness, competition, the quality of the display, the range, are we overselling, or are we underselling? The whole operation is more complicated because you have done the fundamentals and you are moving beyond the sales operation.” (Interview, Supplier UAE).

The level of expectations between a traditional trade and modern trade countries are different as expressed by a regional sales director interviewed:

“In a traditional trade country, the salesperson is an order taker. But in a modern trade country like UAE, the salesperson is an order maker” (Interview, Supplier UAE).

To make the order, the salesperson should be able to build unique relationships with key customers, have the right category understanding, and be strong in negotiation, highlights the interviewee. In Iraq, these tasks are not requested from the salesperson, where the role of the distributor is to ensure that products are available in a fragmented retail environment.

A country manager interviewed for Iraq notes:

“Our distributor has to ensure proper distribution routes, reaching the 30,000 grocery stores in Iraq either directly or through wholesalers. He needs to invest in vans and manage the transactions from A to Z, and we are not anxious about how this is being done.” (Interview, Supplier Iraq).

This indicates that suppliers in Iraq are not concerned with knowing the ‘how’ part. Suppliers are satisfied as long as distributors are bearing all the risks associated with investments in physical distribution assets and are covering as many stores as possible. Suppliers incur minimal levels of commercial investments in traditional trade markets, thus limiting the possibility for opportunistic behaviour by distributors.

“We spend in trade offers, but our investments are negligible compared to investments in modern trade markets.” (Interview, Supplier Iraq).

Distributors in Iraq may act opportunistically, but the consequences of their behaviour are contained to a certain extent. On the other hand, suppliers appear to be acting opportunistically in a country like Iraq, where distributors absorb all related risks. In such a context, suppliers are risk averse and are solely interested in driving volume, and gaining opportunistic sales opportunities while incurring minimal investments, as

highlighted by a general manager interviewed. The General Manager of a large multinational supplier in the Middle East adds:

“If you ask me today whether we would go and invest US\$ 100 million in Iraq, my answer would be ‘maybe not’. Why, because of the environmental risk factors in the country. I think that over the coming 10 years, the future prospect of distributors is very bright in Iraq because international suppliers will be very careful regarding the security of lives, their personnel, security of assets, and the security of cash.” (Interview, Supplier Iraq).

The insight shared shows that suppliers may tolerate dyadic risks and accept outsourcing their sales and distribution activities to avoid absorbing environmental risks that may have greater negative implications. A distributor can thus present himself as the right candidate for absorbing these risks and acting on behalf of the suppliers in the local market.

“Our distributor acts as if he is the supplier in the country. When you go to the grocery and you ask about our products, they will tell you the name of the distributor, we do not mind that because they are representing us in the field” (Interview, Supplier Iraq).

The dyadic cases analysed show that suppliers in KSA and UAE are vulnerable to dyadic risks, unlike suppliers in Iraq, who seemed to be more tolerant. Some suppliers in UAE and KSA have given distributors a notice period to enhance their capabilities, and others are considering doing so in the near future. As predicted by the agency and TCE theories, the multiple dyadic cases explored show that suppliers who outsource their sales and distribution operations to distributors are negatively affected by relational risks. These suppliers are less confident about their ability to accelerate growth and optimise costs, thus highlighting the negative consequences of dyadic risks performance. A general manager outsourcing the sales and distribution activities notes:

“Priority number one for us is growth, we [the supplier] have brands that we think have the potential to grow by 15% to 17%, which is much higher than our current growth

rates, and we will not allow our distributor to block us from meeting our growth ambition.” (Interview, Supplier KSA).

In traditional trade markets like Iraq, where environmental risks are high and where the role of the distributor is restricted to basic sales tasks, suppliers seem to accept the consequential risks. The findings in Iraq show that by outsourcing certain tasks, suppliers transfer the risks associated with these tasks, as predicted by the agency theory. A General Manager interviewed notes:

“We absorb all the risks that they are not willing to absorb; it is a winning situation for them.” (Interview, Distributor Iraq).

Exploring multiple cases in three different contexts shows that dyadic risks are affecting FMCG suppliers in reality, but the consequences of such risks vary with the variation in the context. Dyadic risks mainly take the form of opportunism, information asymmetry, non-competent capabilities, and the lack of focus. In channel contexts like UAE and KSA, the consequences drive suppliers to transform their entire sales and distribution models. The findings thus confirm the first proposition raised by the research. However, this proposition is more valid for FMCG suppliers in UAE and KSA than for FMCG suppliers in Iraq.

4.2 Dyadic Risks Affecting Distributors

P2: FMCG distributors in the Middle East are negatively affected by dyadic risks.

The research defines dyadic risks for distributors such as the uncertainties (probability of unexpected events occurring) that are caused by their dependency on suppliers. Cases of suppliers who terminated their relationships with distributors have been observed (Cases 11, 13, 14), reinforcing the significance of dyadic risks for distributors. Distributors who were given a notice period to upgrade their capabilities may also be facing the risk of relationship termination in the near future, as confirmed by dyadic

Cases 6, 8, 10, and 15. Evidence that confirms the significance of dyadic risks for distributors are organised in two categories (see Table 4.1):

- Relationship termination: includes distributors who experienced the termination of their relationships with suppliers. These represent a concrete example of the actual consequences of dyadic risks, showing that relationships with suppliers should never be taken for granted.
- Notice period: includes distributors who were given a notice or a probation period to restore the relationship; or else face potential relationship termination.

	Dyadic Cases														
	IRAQ			UAE						KSA					
	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6	Case 7	Case 8	Case 9	Case 10	Case 11	Case 12	Case 13	Case 14	Case 15
Relationship Termination	☒	☒	☒		☒		☒		☒		✓	☒	✓	✓	
Notice Period	☒	☒	☒	✓ (3Y back)		✓		✓		✓					✓

Table 4.1. Cases Highly Affected by Dyadic Risks

The table shows that in Iraq, distributors are less exposed to dyadic risks as suppliers are not anticipating any key transformations to their existing relationships at present. Suppliers have accepted their dependency on distributors, who can absorb all risks, as predicted by the agency theory. A vice president of a supplier type of organisation notes:

“I think that Iraq, from a distributor point of view, will flourish for many, many years.”
(Interview, Supplier UAE).

In UAE on the other hand, most suppliers interviewed have given their distributors a notice period to shape up their capabilities (Cases 6, 8, 10), and in KSA some have terminated existing relationships (Cases 11, 13, and 14). These two sets of cases were primarily used to explain the sources of dyadic risks affecting distributors in the Middle East. The findings presented below are not only restricted to information gathered from distributors, but also includes information gathered from their suppliers in the region. Distributors should be concerned about their dependency on suppliers due to specific sources, some of which were anticipated by the research while others emerged from the interviews.

4.2.1 Legal protection

The local laws in the Middle East obliging foreign fast moving consumer goods (FMCG) suppliers to appoint or partner with local distributors were originally formed to protect local companies from globalisation and to control the wealth generated by oil rich countries. This law is not restricted to a specific industry, and thus forces multinational FMCG suppliers, such as the cases targeted by the research (Cases 1 to15), to appoint distributors in the local market. A CEO for a key FMCG company notes:

“In the Gulf region, suppliers are legally obligated to work with distributors. If I want to set up my own sales force, I might not always be able to do so as I have to be tied up with a local distribution company.” (Interview, Supplier, Middle East).

Such laws made it difficult for suppliers to establish their own sales and distribution operations in the Gulf and operate independently from their current distributors.

“It is like a Catholic marriage which makes it almost impossible to end by divorce, and too costly if divorce is being considered.” (Interview, Supplier KSA).

Such laws safeguarded distributors, as shared by a CEO of a distribution company in UAE:

“Any multinational company must be in partnership with a local company that has a majority share of 51%, this protected us as distributors.” (Interview, Distributor UAE).

To maintain their independence and avoid being firmly linked to a local partner, FMCG suppliers opted for a transactional distribution model where the supplier’s role is solely to export the product to the local market, leaving the management of the sales and distribution operation to another party. Suppliers do not have the right to issue invoices to retail customers unless they have set up a legal entity in partnership with a local company.

The turning point occurred two years ago when the government of KSA introduced some flexibility, allowing foreign companies to establish physical operations on the ground without relying on local companies. Governments, as noted by one of the interviewees, are obliged to relax some laws in order to be able to join the World Trade Organisation. This drove suppliers to question their models of outsourcing the sales and distribution activities, and seek different strategies to mitigate dyadic risks. A transformation process of the sales and distribution models erupted when one of the suppliers interviewed (Case 13) decided to terminate its relationship with its current distributor. The business development director of Case 14 notes:

“In KSA, we [the supplier] followed exactly what Case 13 experienced, and we even used the latter as an example to encourage our shareholders to exit the relationship with our existing distributor. We could not tolerate his behaviour anymore, and we needed to find a solution. I think that many other FMCG companies will follow, it is like a domino effect and distributors should truly consider these trends.” (Interview, Supplier KSA).

In UAE, on the other hand, suppliers are still obliged to have a local partner by law, though there are some ways to bypass the law.

“Our [the supplier] local partner is a silent partner; we manage the operations as if we were operating alone.” (Interview, Supplier UAE).

Distributors in UAE agree that governments are becoming less strict nowadays as a means to attract foreign direct investments, which can only be done by encouraging multinational companies to establish their own operations in the local market, as highlighted by the CEO of a distribution company in UAE. This is why the government of Dubai developed a free zone in Jebel Ali which offers such benefits as import and re-export tax free protection, 100% foreign ownership, corporate tax free operations, minimum operating costs, and other benefits, according to a regional sales director interviewed. With these new regulations allowing suppliers to operate independently in the market, distributors can no longer rely on the law to protect their roles. In addition, the new regulations have also relaxed the compensation fees paid to distributors should

a supplier decide to terminate his services, making the exit costs much more affordable than they used to be in the past.

“As long as we [the supplier] give an acceptable notice period to our distributor, there is no legal obligation to pay him a compensation fee. It all depends on the exit arrangement reached as well as our business ethics to ensure that we were fair till the very end.” (Interview, Supplier UAE).

4.2.2 Market know-how and threat of substitute

In the past, distributors possessed the market knowledge advantage, being local companies that are physically present in the market, retaining the required connections. They knew the laws, the system, the trade, the consumers, and were able to build on this advantage at a time when multinational companies used to manage their businesses in the Middle East remotely from England, France, Luxembourg, and the United States.

“We needed someone who knows the market and is familiar with the local culture” (Interview, Supplier KSA).

The research of Dunn (1979) confirms this insight but dates back 35 years, which is why the above interviewee used the past tense when describing the situation.

With the growing importance of Middle Eastern markets today, all suppliers interviewed are physically present in KSA and UAE through representative offices, but not yet in Iraq, mainly for security reasons.

“The Middle East represents a good share of our international business; there is a need to be physically present in the market.” (Interview, Supplier KSA).

By hiring local experts over time, suppliers were able to acquire the knowledge they once lacked and have succeeded in embedding the local cultures within their own organisations by being more integrated in the Middle Eastern societies. Table 4.2 illustrates how, for three of the 15 cases explored, the experts interviewed were foreign (British, South African, and French). In 10 out of the 15 cases examined, the experts

interviewed from multinational firms had previous experience in local distribution companies.

	Dyadic Cases														
	IRAQ			UAE						KSA					
	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6	Case 7	Case 8	Case 9	Case 10	Case 11	Case 12	Case 13	Case 14	Case 15
Foreign Expert	☒	☒	NA	NA	NA	APP	☒	✓	☒	☒	☒	☒	☒	☒	✓
Local Expert	✓	✓	✓	✓	✓	NA	✓	☒	✓	☒	✓	✓	✓	✓	☒
Worked previously with Distributors	☒	✓	✓	☒	✓	NA	✓	☒	✓	☒	✓	✓	✓	✓	☒

Foreign Interviewees
 Previous experience (Distributors)

Table 4.2. Foreign Experts Interviewed

Suppliers no longer need to rely on distributors for information. Over time, and by hiring local experts with previous experience in distribution companies, suppliers were able to acquire the right know-how. This transfer of learning is the second turning point in supplier distributor relationships in the Middle East. Suppliers are now aware of what is happening, familiar with the business dynamics, and experienced in managing distribution type organisations in the Middle East. A vice president interviewed notes:

“It is not difficult for me [the supplier] to know what it would cost me to operate in UAE in KSA or any other country in the Middle East. I have teams comprised of individuals who used to manage the day to day operations in leading distribution companies in the Middle East. Now we know better than before.” (Interview, Supplier Middle East).

This theme emerged from interviews and has substantial implications for distributors. Suppliers can use their acquired knowledge of the actual market situation to renegotiate their contracts with distributors. A contract renegotiation may be translated into a decrease in margins.

“With the increasing pressure on costs and the change in the retail scene, we [the supplier] had to adapt our distributor margin to the actual situation in the market.” (Interview, Supplier UAE).

In KSA and UAE, distributors used to build on the power of knowledge and information asymmetry in the past, but can no longer do so nowadays. Suppliers are no longer kept in the dark; in fact some might have as much knowledge as distributors. With the increase in market knowledge, suppliers started to see the gaps, assessing more thoroughly the capabilities of their distributors, thereby leading to higher expectations going forward.

“Our distributors know how to sell, but with the evolution taking place, our expectations from our distributors have changed. They really need to know what kind of value they can add to our business.” (Interview, Supplier KSA).

Suppliers might achieve better results than distributors in certain functions. Moreover, some distributors are aggressively building their capabilities to be able to attract suppliers from other distribution companies. Distributors thus face the threat of substitution either by their suppliers who are acquiring local skills, or by other more competitive distributors in the market. Suppliers who are working with distributors who have also acquired resources who had a previous experience with multinational suppliers face lower levels of dyadic risks.

“I used to work with ABC (supplier type of organisation); this has helped me introduce new ways of thinking. I even coached my people in how suppliers operate and what the priorities are that matter for them.” (Interview, Distributor KSA).

4.2.3 Scale and risk absorption

The scale of the distributor in relation to that of the supplier has been a key advantage for the former. Distributors built their scale by succeeding in representing several international suppliers at the same time. Distributors have quadrupled their size due to the dynamic growth of all their suppliers put together, as shared by one of the interviewees.

A supplier used to benefit from the distributor’s scale for two main reasons, noted a regional sales director interviewed.

“First, distributors with large scale have a cost advantage as they can spread their fixed costs over a bigger business, and second they have the negotiation advantage as they can go to the trade with a bigger portfolio.” (Interview, Supplier KSA).

Scale is positioned as a source of power for distributors, the importance of which cannot be underestimated. In modern trade markets, however, distributors cannot merely rely on scale. Cases 11 and 15 are typical examples of suppliers operating with sizeable distributors in KSA. Scale was not working for both companies as they felt diluted in the portfolio of their distributors. Although scale provided them with competitive costs to serve, this, however, came at the cost of focus. As demonstrated earlier, both suppliers suffered from dyadic risks due to the lack of focus. The supplier of Case 11 terminated his relationship with the distributor due to a lack of focus and the supplier of Case 15 has given its distributor a notice period.

“We [the supplier] want to work with someone who makes us feel important to his portfolio ... This is how we can draw his attention and dedication.” (Interview, Supplier KSA).

Distributors used to benefit from the scale advantage in the past but many suppliers have now achieved a critical scale, allowing them to consider different alternatives. A general manager who is not convinced of the notion of scale notes:

“If you had asked me [the supplier] this question 15 or 20 years ago, I would have told you that I was obliged to outsource because it makes financial sense for me; it is not the case today as I have the scale to be on my own.” (Interview, Supplier KSA).

Some suppliers do not agree with this view, and still consider the notion of scale a strategic advantage of distributors. The only risk that exists is distributors losing their scale due to their inability to sustain their relationships with suppliers. They will thus lose an important source of power that used to justify their existence in the past.

Whilst the scale dimension might still be an advantage for distributors in Iraq, it is no longer the case in UAE and KSA, where suppliers perceive that outsourcing to distributors for their mere ability to absorb certain risks is not sufficient.

“If we [the distributor] have the scale to absorb financial risks, it will be more risky if we keep outsourcing all the sales and distribution activities to a distributor. If our distributors have the scale, they cannot treat us with mediocrity anymore, regardless of our size”. (Interview, Supplier UAE).

The main influence of distributors is their ability to absorb financial risks. Several distributors interviewed make up part of gigantic conglomerates operating in various business sectors such as banking, real estate, automotive, heavy industries, and distribution. Their access to capital presented a central benefit in the past and will continue to do so in the future if they demonstrate to all suppliers their significance to their portfolio, regardless of scale. Some distributors are aware of these changes, as noted by a CEO interviewed:

“We [the distributor] have access to capital; we offer our suppliers a risk free model in which we are absorbing the biggest share of the risk. But our suppliers have their growth ambitions, and to grow we need to give them enough focus and make them feel important in the way we allocate our resources and set our plans.” (Interview, Distributor UAE).

4.2.4 Unpredictability of suppliers

A distributor, who is instigating considerable dyadic risks for the supplier, should not feel surprised if one day their supplier decides to terminate the relationship. Some distributors interviewed, who should feel confident about their relationships with suppliers (as confirmed by the interviews conducted with their suppliers), were exhibiting signs of concern about the sustainability of the relationship. This was observed in Cases 4, 5, 9, 12, and 15. The vice president of a key distribution company in KSA (Case 12) notes:

“My supplier can decide at any point in time to put an end to the relationship, even if we are the best in town. They did it in other countries, and the possibility that they do it in KSA will always remain in our calculations, although we are on very good terms with them.” (Interview, Distributor KSA).

The general manager of a key distribution company in UAE (Case 4) adds:

“The second our supplier feels that we are not evolving with the market and we are not maintaining a level of capabilities that is up to the standards in the various trade channels, he might reconsider the relationship even if we are among the best in the market today.” (Interview, Distributor UAE).

A decision to review the relationship regardless of historical experience has also been witnessed. Distributors of Cases 4, 9, 12, and 15 fear the unpredictability of suppliers but Case 5 provides an example of the validity of this type of uncertainty. The supplier of Case 5 discontinued the relationship with his distributor, not because of dyadic risks, but because it was a strategic recommendation that came from top management.

“It has been decided that we [the supplier] need to directly control the downstream supply chain activities; we do not find the need for distributors anymore.” (Interview, Supplier UAE).

Distributors in KSA and UAE are significantly affected by dyadic risks and should be concerned about their level of dependency on suppliers, as predicted by the agency theory. Dyadic risks put distributors in a continuous uncertain mode about their role in the future. Insights shared from suppliers and distributors confirm that the sources of power that distributors used to have in the past are currently being eroded: legal protection, market know-how, scale, and risk absorption. Moreover, the agency theory assumes that distributors tend to behave opportunistically, but this research shows that the opportunistic behaviour is not exclusive to agents but can also be exercised by suppliers. The unpredictability of suppliers is a main theme that emerged from five cases explored. This theme should keep distributors prepared and mindful not to abuse their relationships with suppliers.

P1 and P2 confirm that dyadic risks are affecting FMCG suppliers and distributors in the Middle East.

The findings confirm that an agency type of relationship can be applied to supplier-distributor relationships in the Middle East. An agency relationship arises whenever one party, called the principal (FMCG supplier in Middle East), decides to delegate certain activities to an agent (FMCG distributor in Middle East) in a particular domain of problems (Ross, 1973). In such a relationship, the agent's behaviour to maximise his individual interests at the expense of the principal's interests is deemed as natural (Jensen and Meckling, 1976). The confirmation of the first proposition shows that the agency problem is indeed universal (Ross, 1973; Demski and Feltham, 1978) and that its applicability is neither industry nor context specific. The current research demonstrates that agency problems are applicable to the FMCG industry in business contexts like the Middle East. P1 confirms the existence of agency problems, and P2 demonstrates that the opportunistic behaviour is not restricted to the distributor but can also apply to suppliers, who might also act opportunistically. Moreover, suppliers in the Middle East maximise the utility of their distributors by gaining know-how and skill transfer. When the situation becomes less complex and the risks of integration become less intense (in modern trade countries), suppliers in the Middle East appear to favour their private interests over the relational interests. The agency theory assumes that suppliers are risk neutral (Jensen and Meckling, 1976; Eisenhardt, 1989; Wiseman and Gomez-Mejia, 1998); the current research confirms that suppliers are risk neutral when such behaviour serves their best interests. In UAE and KSA, some suppliers took the decision to terminate their relationships with their distributors despite the associated risks. In Iraq and other similar traditional trade countries, suppliers are risk averse as they prefer delegating the sales and distribution activities to distributors who are willing to absorb the complexity of the transaction (fragmented traditional trade universe). The dyadic cases explored show that distributors in the Middle East should be comfortable working with risk averse suppliers rather than with risk neutral ones. A risk neutral supplier, on the other hand, is unpredictable and puts the distributor in a situation of greater uncertainty. Agency relationships that involve risk averse suppliers are deemed to last longer in a context like the Middle East.

The research also confirms that dyadic risks are context specific. This finding would not have been achieved had the research taken place in bounded contexts like many of the studies exploring supply chain risks. Dekker (2013) examined transaction specific risks in Japanese manufacturing firms, Handfield and Bechtel (2002) in North American firms, Harland *et al.* (2005) in UK private and public industries, Ettlie and Sethuraman (2002) in UK durable manufacturers. The choice to conduct the research in three different contexts and to explore dyadic risks from the perspective of both dyadic members helped support the environmental identity of dyadic risks. One of the factors supporting the epistemological stance of the author is the context of the research: three countries with different channel environments. The interpretative epistemological position helped reveal a truth hidden in the context. The choice to adopt a multiple case study methodology for its ability to account for contextual variations (Yin, 2003) is also confirmed as relevant. The research confirms the existence of dyadic risks in dyadic relationships in the FMCG industry in the Middle East, but the implications of these risks differ with the variation in the context. In traditional trade countries like Iraq dyadic risks do exist but their implications are low. In KSA and UAE, where the modern trade channel is on the rise, dyadic risks have moderate implications for some cases and high implications for others. Dyadic risks do not appear to be solely context specific, but also task specific. As predicted by Eisenhardt (1998), the research confirms that dyadic risks are more serious when tasks are un-programmable, specifically in modern trade countries like UAE and KSA. In such countries, the sales task significantly depends on behavioural and interpersonal skills, such as the negotiation with key accounts and the control of the quality of execution. In this case, suppliers are extremely affected by their inability to control outcome and behaviour based performances. In Iraq, on the other hand, the sales task is highly programmable: sales and delivery to a fragmented retail channel. The sales operation in a traditional trade market like Iraq depends on the logistical capabilities (geographical distribution) of the distributor. The sales person is not expected to build strategic relationships with 50,000 small grocery retail outlets, but is expected to ensure the availability of products in these stores. Programmable tasks may be more complex, but are observable and result in a lower information asymmetry level (Eisenhardt, 1998). FMCG suppliers in the Middle therefore outsource programmable tasks as they engender low levels of dyadic risks.

Non programmable tasks, on the other hand, result in higher levels of dyadic risks, which puts the outsourcing decision in question.

Authors exploring network risks assume that dyadic or triadic networks are affected by lower levels of risks than multiple member networks (Choi and Krause, 2006). The current research does not refute this assumption, but shows that the risks affecting dyadic networks must not be underestimated. Evidence gathered in the research confirms that network risks are to be substantially addressed in dyadic, triadic, and other forms of networks. The network explored in the Middle East is composed of a supplier base and a buyer base. Suppliers are more concerned with dyadic risks associated with their buyer or distributors' base. Distributors, on the other hand, are more concerned with the networks associated with their supplier's base. One supplier operates with one or two distributors at most, which makes its network less complex than a distributor who operates with five or even ten different suppliers, according to Choi and Krause (2006). The intensity of dyadic risks affecting distributors is thus amplified to the size of its network. The behaviour of suppliers dealing with one or two distributors who are exercising opportunistic behaviour according to the agency theory can be controlled, as the size of the network is less complex. The research confirms that the amount of complexity is proportional to the size of the network size (Choi and Krause, 2006; Choi *et al.*, 2001) but the implications of these complexities are the same despite the network size: the dependency of a supplier on a single distributor in UAE and KSA does not limit his exposure to dyadic risks. In a context where the implications of dyadic risks are low (like in Iraq) suppliers are more likely to accept networks with larger sizes. This explains why it is common to see one supplier operating with several distributors in traditional trade markets in the Middle East. A smaller network is preferable, but in some traditional trade markets with vast areas larger buyer/distributor networks can achieve better results. This is why in Egypt, for example, many suppliers deal with three to five distributors. As long as dyadic risks have lower implication levels (programmable tasks in traditional trade markets), suppliers can accept higher complexity levels through larger networks to be able to cover larger areas.

Following the examination of the dyadic risks affecting the supplier and distributors and their implications for both dyadic members, the research explores how suppliers and

distributors might react to such risks using the propositions raised by the agency and TCE theories. The findings are presented in the following three sections: Section 4.3 presents the risk mitigation strategies that do not consider a transformation of the supplier distributor model, relying on the agency theory propositions. Sections 4.4 and 4.5 examine the strategies that consider a partial and a full integration of sales and distribution activities respectively, following the propositions of the TCE Theory.

4.3 Dyadic Risks Mitigation (Supplier): Agency Theory Proposition

P3: FMCG suppliers in the Middle East mitigate dyadic risks by deploying a formal control system with distributors.

The notion of dyadic risk is mainly associated with distributors that tend to behave opportunistically with suppliers by benefiting from the presence of information asymmetry and the inability to control their behaviour. The section discusses the cases that have used the approach recommended by the agency theory to mitigate dyadic risks. Thus, this section focuses on the control system deployed by FMCG suppliers in the Middle East to reduce the probability of dyadic risks occurring. The cases explored show that some suppliers have adopted basic control systems whilst others went for more advanced systems.

4.3.1 Basic control systems

The basic type of control system appears to be most commonly adopted by suppliers in Iraq. The section presents what is meant by basic control systems and why such systems would be more relevant for Iraq, but not for KSA and UAE.

The findings of P1 show that suppliers in Iraq acknowledge the existence of dyadic risks but do not see the same implications of these risks on their businesses as do suppliers in KSA and UAE. It is therefore normal that the mitigation strategies adopted by suppliers in Iraq differ from those in UAE and KSA. The mitigation of dyadic risks in Iraq starts by controlling the borders and avoiding counterfeits. A general manager of a multinational company in Iraq notes:

“We used to deal with parallel import products from Syria and Jordan; some of our distributors in Iraq are also selling to other markets.” (Interview, Supplier Iraq).

Many suppliers used to operate with more than one distributor in Iraq, and also in KSA and UAE (Case 1 in Iraq, Cases 6 and 7 in UAE).

“Having more than one distributor adds a lot of complexities to the business. This might be the right solution in big countries like Egypt and Iran, but I do not see it in Iraq and definitely not in UAE.” (Interview, Supplier Middle East).

A supplier can control this situation by consolidating his business with one distributor deemed the most appropriate to perform the required actions.

“We [the supplier] had two distributors; one was covering Baghdad and Erbil and the other was covering the remaining regions in Iraq. It was not the right go-to-market because some distributors were dropping their prices to sell more volumes outside their territories, so we decided to consolidate with one main distributor.” (Interview, Supplier Iraq).

The mitigation of dyadic risks starts by reducing the probability of their occurrence. It is generally acknowledged that having more than one distributor in a country increases the probability of dyadic risks occurring.

After organising the go to market, suppliers seek to formalize the relationship.

“We signed a contract which specifies the margins that should be made, but whether the distributor is respecting the contract is another story,” (Interview, Supplier Iraq).

Controlling prices to trade in a fragmented market like Iraq is a complex thing to do but this does not seem to be a problem for suppliers.

“A distributor can benefit from this complexity in various ways and there is only little that we can do to control the distributor’s action. We know that the contract alone does not provide enough assurance. However, our priority is not to control whether the

distributor is making more money than he is supposed to, but to make sure that he has the prerequisites to grow the business.” (Interview, Supplier Iraq).

What matters for suppliers is not solely the contract terms, but their application in reality. Their interests rose when Iraq started representing a good share of their business.

“We cannot manage Iraq as an export market anymore, where we send products and we do not care how and where the products are sold.” (Interview, Supplier Iraq).

A basic control system drives a supplier closer to markets by employing a dedicated market manager, whose role starts by understanding the market and identifying whether the distributor has the right capabilities to grow the business or not.

“Today we have recruited someone based in Iraq who manages the distributor on the ground versus us managing it remotely from Lebanon ...his role is to define our key priorities in Iraq, our four must-win battles in Iraq, and ensure that we’re deploying all the actions. He also has a prime role in bringing market insights about competitors and customers.” (Interview, Supplier Iraq).

To mitigate dyadic risks, the role of the market manager has to be well-positioned for distributors. He has to establish control without making the distributor feel that he is being controlled. This is not a straightforward task to do, but it appears that the suppliers interviewed are satisfied with the way their market managers are handling their distributors in Iraq.

“The market manager adds value to the distributor business by agreeing on the efficient route to market strategy, bringing know-how and expertise to deploy the strategy, and demonstrating how the distributor can generate more sales by investing better in the business.” (Interview, Supplier Iraq).

A basic control system is not as associated with controlling the distributor as it is with understanding the market and transferring know-how to distributors to grow the business.

“The market manager is our ambassador in the market; he brings us market insight but more importantly, he gives us the ‘why’ behind our performance” (Interview, Supplier Iraq).

“Having a market manager allowed us to obtain information and access to the distributor’s information systems. In the past, we did not have the visibility that we have today.” (Interview, Supplier Iraq).

“The market manager had a prime role in transferring the yearly plans and building the capabilities of our teams.” (Interview, Distributor Iraq).

For the suppliers interviewed, product availability and distribution are the main sales performance drivers in a traditional trade market like Iraq. A supplier’s main interest is to grow the business with minimal financial risks that are transferred to distributors in return for an adequate gross margin and the placement of a market manager who provides the necessary know-how. The market manager is viewed by suppliers as the founding pillar of a basic control system. A market manager interviewed for Iraq notes:

“The message from my CEO was clear: ‘Go and implant our culture in the distributor’s organisation. Let them deal with the trade the way we do’. I coach their teams, conduct weekly meetings with them to review objectives, align on plans and identify opportunities... I conduct frequent market visits with them to identify the gaps and give them feedback” (Interview, Supplier Iraq).

A basic control system based on employing a market manager to supervise the distributor proved to be very effective for the suppliers interviewed.

“Last year, we were able to achieve US \$50 million in sales at accelerated double digit growth rates; it was a record year for us in Iraq.” (Interview, Supplier Iraq).

The analysis of the multiple dyadic cases shows that a basic control system to mitigate dyadic risks is sufficient in Iraq. The cases explored show that an effective basic system is based on the following:

- Entering into a fixed margin contract, which covers a share of the environmental risks associated with doing business in Iraq. The contract is renewable on an annual basis as suppliers are not yet willing to engage in long term contracts in Iraq.
- Hiring a market manager, based in Iraq, whose role is to supervise the performance of distributors, transfer know-how, and ensure the deployment of the appropriate sales fundamentals.
- Implementing a standard reporting tool, such as stock and sales reports that mainly focus on controlling macro sales performance.

By setting up such a system, suppliers (Cases 1, 2, and 3) have succeeded in reducing information asymmetry with distributors, thus confirming the proposition raised by the agency theory. Suppliers who have not yet deployed such a system seem less confident about the future of their business in Iraq.

“We should grow between 7% and 8%, I’m not sure... Iraq would be a wide space territory for us, the growth potential is on the high double digit side but we really do not know much about the market” (Interview, Supplier Iraq).

The reason why such suppliers have not established a basic control system is not because they do not see its benefits, but because they first need to ensure whether they have chosen the right distributor in that market. A CEO of a supplier interviewed notes:

“Before we decide to place someone in Iraq, we need to make sure that the distributor with whom we are currently dealing will be our choice in the future.” (Interview, Supplier Iraq).

Such suppliers do not consider they are dealing with distributors in Iraq, but rather with importers.

“We do not have a distributor in Iraq, only someone who imports our products. You can call him an importer or a wholesaler.” (Interview, Supplier Iraq).

The above cases reveal that the prerequisite for deploying a basic control system is to first ensure that suppliers are dealing with the right distributors. This is the main reason that led companies (Cases 1, 2, and 3) to adopt a basic control system in Iraq and prevented others from doing so.

The analysis of the interviews conducted in KSA and UAE shows that a control system with basic features is not enough to mitigate dyadic risks. The dyadic cases examined in both countries confirm that a system with more advanced features is required.

4.3.2 Advanced control systems

An advanced control system does not replace a basic system, but rather complements it. According to the interviews conducted, a control system has to give suppliers the ability to control their sources of costs and drivers of growth. A fixed margin based contract, which might be sufficient in a country like Iraq, does not give suppliers the right to control the actual costs incurred, deemed necessary for suppliers in KSA and UAE. This is why such suppliers confirm the need to have a cost plus contract, which forces distributors to share their actual cost structures. A regional sales director of a multinational company interviewed notes:

“In UAE, I am in favour of cost plus contracting as I believe that margin contracts (fixed price contract) will soon become obsolete.” (Interview, Supplier UAE).

A similar insight was obtained in KSA.

“In 2011, we decided to move to a cost plus contract because we had no visibility over the cost to serve structure of our distributor.” (Interview, Supplier KSA).

Conducted interviews show that dyadic cases in KSA and UAE can be grouped into three categories:

- Group 1: groups suppliers who have entered into cost plus contracts with distributors to better control their costs to serve.
- Group 2: groups suppliers who are on fixed margin contracts with distributors but are willing to shift to cost plus contracting in the future.
- Group 3: groups suppliers who are not willing to shift to cost plus contracts, but have found alternative solutions that provide them with the same level of control.

Table 4.3 illustrates the similarities and differences between each of the above three groups.

		Dyadic Cases											
		UAE						KSA					
		Case 4	Case 5	Case 6	Case 7	Case 8	Case 9	Case 10	Case 11	Case 12	Case 13	Case 14	Case 15
1	Actual Experience of Cost Plus Contract	✓	✓	☒	☒	☒	☒	☒	☒	✓	☒	✓	☒
2	Willing to shift to cost plus contract	NA	NA	H	H	H	L	H	☒	NA	☒	NA	L
3	Failure of Cost Plus Contract	☒	✓	NA	NA	NA	NA	NA	☒	✓	☒	✓	NA

H-High
M-Medium
L-Low
NA-Not Applicable

Table 4.3. Similarities and Differences -Cost Plus Contracting

Table 4.3 shows that four cases in UAE have shown high willingness to implement cost plus contracts in the future. These interviewees believe that cost plus contracts give suppliers a good level of control over their cost to serve, and allows them to seek cost optimisation opportunities and efficiency programmes. The latter is very important, as expressed by a supplier who experienced cost plus contracting in KSA (Case 14 in KSA). Case 14 shows that the willingness to move to cost plus contracting is not only associated with controlling the cost to serve, but also with identifying cost optimisation opportunities that allow for re-investment in the business to further drive growth.

“A cost plus contract does not necessarily mean looking for savings, but it’s about a more effective allocation of costs to improve your service, to have better capabilities, and above all it drives your level of control far up. You have to be in a position of believing that it will drive growth.” (Interview, Supplier UAE).

The move to cost plus contracting is perceived as an entire change in the relationship, which can bring a positive outcome to both parties as long as the distributor understands the mutual benefits gained. A regional sales director interviewed notes:

“A cost plus contract gives a supplier [the supplier] full visibility, but as the same time it leads him to absorb certain risks associated with cost inflation.” (Interview, Supplier UAE).

In fixed margin contracts, suppliers are not affected by potential cost increases that arise due to market inflation, as they are entirely transferred to distributors. In a cost plus contract, a supplier is willing to share these risks, as long as he is allowed to intervene in optimizing the distributor’s cost structure. A supplier willing to shift to cost plus contracting highlights:

“If we [the supplier] implement a cost plus contract, we will have more visibility over costs, and we will be more certain of what we want and what resources to deploy. We are going to do this together with our distributor; we will take inefficient costs out of our system and invest in value driving activities.” (Interview, Supplier UAE).

On the other hand, the tangible experience of some suppliers and their distributors with cost plus contracts (Cases 12 and 14) shows that the move to cost plus contracting may lead to negative impacts on the relationship.

“We told our distributor that a cost plus model means two things: ‘you will disclose your costs, and we will reimburse you for your costs plus a certain margin’. When we asked them to share their cost structure, they resisted at first but then accepted to do so ... We then discovered that the actual costs incurred were much less than the costs we thought they had incurred.” (Interview, Supplier KSA).

A prerequisite for cost plus contracting is a mutual alignment on the structures of costs notes a CEO interviewed:

“We need to agree together on the payroll and the number of employees, this is number one. Number two, we need to agree on the petrol cost and selling cost and track cost and warehousing cost and others. If we agree together on those cost components and on the yearly inflation, which is on increasing trends, then a cost plus contract may work but this is debatable”. (Interview, Distributor UAE).

An alternative solution to cost plus contracts is presented by a supplier interviewed in KSA (Case 12) who had a negative experience with cost plus contracting because of the complexity that such a contract can bring to the relationship. The Vice President of the concerned supplier notes:

“Many suppliers have people coming on assignments of two to three years, who want to demonstrate their innovative achievements by challenging the costs of their distributors on a daily basis, which is not healthy for the relationship; If they need visibility, we [the distributor] can give it to them without the need for a cost plus arrangement” (Interview, distributor KSA).

This complexity was acknowledged by the supplier and the alternative to a cost plus contract was the integration of the information system and the frequent sharing of financial information.

“The distributor shared with us all the financial information, and we make investment decisions jointly. If there is room for optimisation, we propose our point of view, they present their view, and we reach an agreement together. Our information systems are integrated; we have access to all types of information.” (Interview, Supplier KSA).

The purpose behind cost control is to identify optimisation opportunities that drive suppliers to improve their investment plans.

“Controlling costs has to be coupled with improving capabilities, recruiting higher levels of talent, investing in technology, investing in training, buying more vans, placing another 50 merchandisers...etc. You can make these decisions if they make more sense for the business” (Interview, Supplier UAE).

A cost plus contract might sometimes restrict distributors from optimizing their costs, since the costs incurred are reimbursed by the supplier. For this reason, a regional sales director interviewed who is evaluating the move to cost plus contracting suggests adopting a cost plus contract with cost optimisation incentives.

“We need our distributor to take responsibility for growth, profitability, and cost savings. To engage distributors, a cost saving incentive has to be associated with a cost plus contract which will drive them to effectively seek cost optimisation opportunities.”
(Interview, Supplier UAE).

The founding pillars of an advanced control system are either a cost plus contract, or the sharing of cost based information and the integration of information systems. By adopting this type of contract, suppliers do not only mitigate dyadic risks, but also play a role in determining the required capabilities that must be deployed to drive the business. A basic control system is the entry point to the advanced system. Suppliers cannot deploy a cost plus contract if they do not have a market manager who has a full visibility over their distributor’s profit and loss statement.

In addition to cost plus contracts, an advanced control system to mitigate dyadic risk also incorporates the following features, following the multiple cases explored:

- Joint information system to set and track sales KPIs: three suppliers interviewed have deployed a joint EDI interface with distributors.
- Frequent communications: weekly business review meetings between suppliers and distributors. The sales directors interviewed are involved in the smallest details of the business.
- Assessment of distributor capabilities: incorporates the evaluation of the sales teams, and auditing the distribution operation.

The third proposition shows that the solutions proposed by the agency theory to mitigate dyadic risks are relevant to the Middle East. According to the agency theory, agency problems are resolved based on deploying formal control systems. The findings of the research show that a contract alone is not sufficient to mitigate dyadic risks. From a theoretical perspective, this finding is consistent with the original authors of the agency

theory. According to Jensen and Meckling (1976), suppliers incur additional agency costs to control contract implementation. The cases explored confirm that fixed and cost plus contracts should be accompanied by other agency costs incurred by suppliers in the Middle East. The area manager deployed to supervise the behaviour of distributors appears to have a pivotal role in the relationship. When looking at the different components of agency costs, agency theorists pay special attention to incentive costs, monitoring costs, bonding costs, and residual costs (Jensen and Meckling, 1976; Fama and Jensen, 1983). The cases adopting a control system to mitigate dyadic risks (P3) show that in the Middle East one resource alone, the area manager, is expected to incentivise, monitor, and motivate the distributor. It can be assumed that the role of the area manager is even more important than the formal contract deployed in the Middle East. A big share of the agency costs incurred by suppliers is associated with the salary of the area manager. According to the agency theory, the reduction in information asymmetry includes the deployment of special people who can act as information systems (Eisenhardt, 1988). The research shows that in both basic and advanced control systems, the main role of area managers is to report outcome based information that is both quantitative and can be measured. Agency theorists acknowledge that outcome based variables can be easily controlled as they are observable and measurable (Eisenhardt, 1988; Churchill *et al.*, 1985). However, the research shows that in non-complex transactions that are significantly outcome based (cases in Iraq) an area manager and a fixed margin contract are sufficient to mitigate dyadic risks. However, in more complex transactions (cases in UAE and KSA) suppliers are not confined to basic control systems but rather opt for what the research has defined as an advanced control system. Advanced control systems show that if the agency theory is to be used to understand the mitigation of dyadic risks, the controlling mechanism proposed by the theory should adapt to the complexity of the transaction or to the programmability of the tasks that are delegated to the agent (Eisenhardt, 1988). This is why advanced control systems have been presented as the relevant solution to mitigate dyadic risks in countries like UAE and KSA. By looking at the structure of advanced control systems, one can infer the various dimensions of the agency theory in dynamic contexts like the Middle East. Figure 4.1 shows how these dimensions are connected together in the form of a jigsaw puzzle, one piece cannot operate without the other.

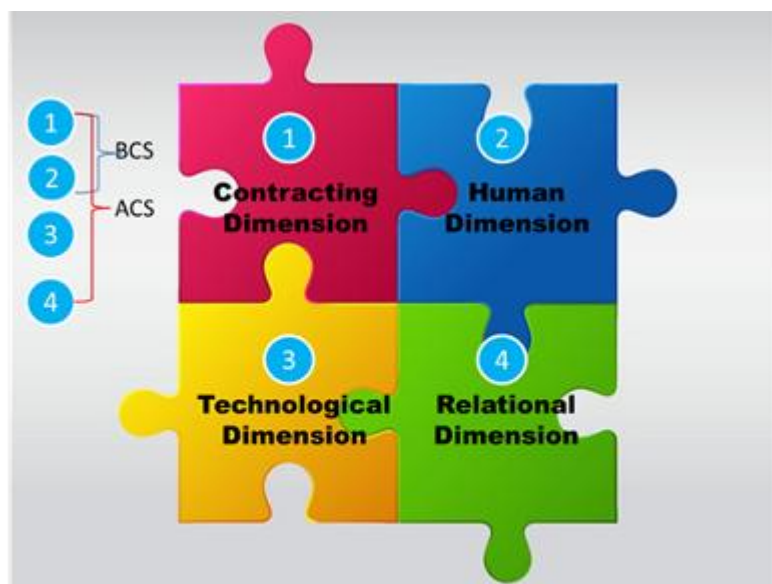


Figure 4.1. Dimensions of Agency Theory in Dynamic Contexts

The contracting dimension includes the optimal contract adopted by suppliers to mitigate dyadic risks. Cost plus contracts are positioned as significantly relevant in UAE and KSA, but not in Iraq. From a theoretical perspective, this finding confirms the work of authors who find that cost plus contracting is highly relevant in complex transactions (Bajari & Tadelis, 2001). Cost plus contracts can also include special incentives to optimize costs. In most of the cases, such incentives are behaviour based, which makes them more effective than outcome based incentives (Anderson and Olivier, 1994). A CEO interviewed notes that cost plus contracts pave the way for exploring many cost optimisation opportunities and productivity enhancement programmes. These terms are more relevant in modern trade contexts, where distributors are expected to demonstrate competent and cost effective capabilities. The success of cost plus contracts is not in their formulation (ante contracting phase), but in their application (post contracting phase). The cases explored also show that formal contracts alone are not sufficient to mitigate dyadic risks, thus bringing the human dimension into the puzzle.

The human dimension (area manager) can be a reason for contract success, and its absence from the puzzle might cause contract failure. The research confirms that in both basic and advance control systems the area manager has a prime responsibility for supervising the contract. However, the role differs between traditional trade and

modern trade contexts, not only due to the nature of the transaction but also due to the type of contract deployed in each context. In traditional trade contexts like Iraq the role of area managers is outcome based, whereas in modern trade contexts the role is rather behaviour based. To be able to effectively perform their roles, area managers in Iraq are merely expected to measure and control the dollar value, the 'what', whereas in UAE and KSA they should be more involved in the 'how', which includes defining the sale process, motivating the sales teams, and developing their capabilities (Weitz, 1981; Anderson and Olivier, 1994). These tasks cannot be performed at a distance, but in proximity. A main difference between BSC and ACS is related to the physical presence of the area manager. The cases explored in Iraq showed that an area manager can supervise two different distributors in two different countries. This is not the case in UAE and KSA, where the area manager must be closer to distributors and more involved in the day to day operations. The human dimension may also be viewed as a point of convergence between the TCE and agency theories as it represents a form of integration of human assets. In both ACS and BCS area managers can be viewed as human assets of high specificity and their role is crucial to contracting success.

The relational dimension is represented by the capability development theme in the advanced control system category. The area manager supervising or controlling the distributor's behaviour has a dual responsibility, one linked to the mitigation of dyadic risks and the other linked to gaining the distributor's trust by developing their capabilities. The findings show that the area manager needs to create a balance between the controlling actions and the trust development actions, as suggested by Laeequddin *et al.* (2012). The research confirms that controlling actions not supported by relationship development actions may be negatively perceived by the controlled party (the distributor). The agency theory pays little attention to the expected reaction of the distributor vis-a-vis the controlling actions taken by the supplier. Agency theorists encourage the inclusion of relational themes when exploring agency relationships. The latest literature on agency theory and supply chain management suggests investigation of how agency variables such as goal conflict, information asymmetry, and risk aversion can be altered to achieve positive outcomes through effective collaboration (Fayezi *et al.*, 2012). This suggestion is supported by the growing importance of partnership relationships in the supply chain (Gottfredson *et al.*, 2005). Suppliers and distributors

are members of the same dyadic network; neglecting the relational dimension is a pre-assumption of a disruption in the network. By taking into account the relational dimension, an advanced control system represents an updated understanding of agency relationships and brings new knowledge to the study of the agency theory. These systems confirm that controlling actions that are not supported by collaboration actions may fail to achieve their desired outcome. Suppliers who develop the capabilities of their distributors project positive intentions of relationship continuation. Such actions show that suppliers care for the wellbeing of their distributors. Distributors who deploy competent capabilities also show commitment to their relationships with their suppliers. This behaviour corresponds with the definition of trust as the willingness of a party to be vulnerable to the actions of another party based on the expectations that the latter will perform a particular action important to the former, regardless of the former's ability to monitor or control his actions (Mayer *et al.*, 1995).

Agency relationships cannot neglect the latest trends in technological advancement. The reduction, or even the elimination, of information asymmetry was merely idealism in agency relationships in the past but with the advance in information exchange tools it has become a possibility. Information systems have been presented as a main theme of advanced control systems. EDI systems may fully control outcome based indicators; some suppliers are even showing pronounced interest in systems that control qualitative indicators. Supply chains are viewed as a forward flow of products and a backward flow of information (Rayport and Sviokla, 1994). Information asymmetry might cause several disruptions in the backward flow of information (from distributor to supplier). In such a context, the agency theory cannot neglect the transformative role that technology has on agency relationships.

The integration of information processes involves investing in a developed information infrastructure, specifically in modern trade countries where retailers have become sophisticated in information system technologies. International manufacturers are moving from basic Vendor Management Inventory (VMI) processes (Barratt and Oliveira, 2001) to Collaborative Planning, Forecasting, and Replenishment (CPFR) processes (Holmström *et al.*, 2002). Through cloud computing technologies, CPFR has evolved to Processes of Collaborative Store Ordering systems (PCSO) (Pramatari *et al.*,

2002). PCSO goes a step beyond the management of sales forecast and inventory levels and allows daily online sharing of store level information like promotions, in-store activities, and shelf alerts. Specialized IT organisations such as Microsoft, SAP, Sales Force Dot Com, SAS, and Oracle have developed specific CRM capabilities to meet the strategic need for information integration and collaboration across the value chain.

Electronic Data Interchange (EDI) facilitates both upstream and downstream information integration (Zhou and Benton, 2007). Information systems have become core capabilities that drive collaboration and enhance the flow of information across the supply chain. From an AT perspective, the strategic importance of technology lies in its capability to reduce information asymmetry between suppliers and distributors. By integrating the technological dimension, advanced control systems that are derived from the cases explored bring the agency theory to the modern age of digital technologies. Agency theory assumptions (namely information asymmetry) were defined in times when technology had a very limited impact on agency relationships (Eisenhardt, 1988). With the move to a connected world, the research shows that agency studies should not neglect the relevant technologies that can be used to mitigate dyadic risks.

The four dimensions depicted in Figure 4.1 shows how the current research bridges the solutions that were provided by the agency theory to mitigate dyadic risks in the past (Basic Control Systems, Quadrants 1 and 2) and the ones that should be considered in current and future agency research (Advanced Control Systems, Quadrants 1,2,3,4). The research shows that basic control systems are relevant to understanding the mitigation of dyadic risks in traditional contexts. On the other hand, in contexts where dyadic members have access to technology (Quadrant 4) and where relationships matter (Quadrant 3), advanced control systems are more relevant. The third proposition thus confirms that the agency theory is a relevant theoretical avenue to understand the mitigation of dyadic risks in the Middle East. The control system proposed by the research is a set of four sub systems (four dimensions) that operate together to mitigate dyadic risks. The difference between the controlling systems adopted in traditional (BCS) and modern trade (ACS) contexts confirms the latest trends in agency research.

Given the assumptions of opportunism, uncertainty, and bounded rationality, the probability of system failure is considered high, as proposed by transaction cost economics theory (Williamson, 1975). According to TCE, control choices are expected to be aligned with the underlying exchange hazards so that transaction costs are minimized (Williamson, 1975). TCE theory proposes the mitigation of dyadic risks by integrating assets of high specificity and outsourcing those of low specificity. The most common forms of assets presented by TCE theory are site asset specificity, physical asset specificity, human asset specificity, brand asset specificity, and dedicated asset specificity (Williamson, 1975). The 4th and 5th propositions suggested by the research mainly focus on the strategies proposed by the TCE to mitigate dyadic risks between FMCG suppliers and distributors in the Middle East.

4.4 Dyadic Risks Mitigation (Supplier): Transaction Cost Economics Theory Propositions-Partial Integrated Models

P4: FMCG suppliers in the Middle East mitigate dyadic risks by partially integrating their sales and distribution activities with their distributors.

The partial integration of sales and distribution activities is a strategy adopted by several suppliers to mitigate dyadic risks. Interviews revealed some minor similarities between a partially integrated model and a fully outsourced model; however, the differences outweigh the noted similarities. Analysing the similarities and differences explained how dyadic risks can be mitigated by integrating capabilities associated with these risks. A significant finding reveals how a partially integrated model is a continuation of the advanced control system.

4.4.1 Partially integrated model: similarities with a full outsource model

Following the cases analysed three main similarities between a partially integrated model and a fully outsourced model emerged. The ability of suppliers to control the price to trade has been identified as the first similarity.

“To control the selling price to trade, I have to either invoice directly to trade, or gain full access to the distributor’s invoicing system” (Interview, Supplier KSA).

Suppliers adopting an FOM and those adopting a PIM do not consider invoicing directly to trade, as they accept dyadic risks associated with controlling the price to trade. These risks hinder them from obtaining full visibility over the actual margins made by distributors. If distributors are selling at prices higher than the recommended ones, they will be making more than what they are expected to make.

The reason a supplier in a PIM and FOM is willing to accept potential opportunistic behaviour instead of displaying readiness to control prices to trade is explained in the following:

“Direct invoicing to trade means managing and absorbing credit risks, something not all suppliers are willing to do.” (Interview, Supplier KSA).

“Some customers have a 45 days credit limit, while others operate on a 75 days credit limit. We do not want to bear those charges.” (Interview, Supplier KSA).

Suppliers thus recognise that the financial risks associated with directly controlling the prices to trade are higher than the dyadic risks involved. Even if this might lead distributors to achieve higher profits than committed, they are absorbing all financial risks involved at the same time.

The trade-off between financial and dyadic risks drives suppliers adopting an FOM and PIM to bear the opportunistic behaviour associated with the inability to control price to trade. Both models thus outsource invoicing to trade to their distributors.

Another similarity between a partially integrated model and a fully outsourced model is related to the ability of suppliers to control execution at retail. The full control of the sales execution functions entails integrating the sales supervisors, the sales representatives, and the merchandisers. Many suppliers interviewed agree that the complexity associated with this integration outweighs its benefits.

“I [the supplier] consider myself as having 1,500 sales employees working for my brand who are financed by the distributor. If I want to run this operation myself, I have to hire 1,500 employees, pay them indemnities, manage their bonuses, and have a full human resources team on board to make sure that we are complying with local regulations...etc. Why would I do all that when I have someone who can do it on my behalf?” (Interview, Supplier UAE).

“The worst nightmare we have is related to employment compliance law. There is a big difference between having a team of 10 and a team of 100 in the market. Recruiting is not easy, and making sure that we are abiding by the law is not easy either, especially if we are dealing with a big team ...” (Interview, Supplier KSA).

The sales execution functions represent around 80% of the sales force population, highlights one of the interviewees. The integration of such functions has to make sense business-wise, otherwise transferring the complexities to the distributor remains a better option.

The third similarity noted is related to the perception of suppliers with regards to controlling logistical capabilities. Suppliers with either PIM or FOM acknowledge the need for a very effective logistical operation, and agree that distributors are the most suited to manage such an operation.

“They have the infrastructure, and the know-how; this is where they can add value the most.” (Interview, Supplier KSA).

In addition to that, distributors can build on their scale to optimise logistics costs. A distributor allocates logistics costs across all suppliers, which gives him a cost leadership advantage, as highlighted by an interviewee. Suppliers do not seem concerned with dyadic risks associated with outsourcing logistics activities.

In summary, suppliers adopting an outsourced model or a partially integrated model share similar perceptions regarding controlling prices to trade, execution at retail, and logistical capabilities. They agree that the cost of integrating these functions outweighs

the benefits. The mitigation of dyadic risks through a PIM is explained by the differences between PIM and FOM.

4.4.2 Integration of key account managers

Suppliers adopting a partial integrated model prefer to have direct control over the relationship with trade (Cases 9, 12, and 15). Unlike in a fully outsourced model, a supplier adopting a partially integrated model is significantly involved in the organisational structure of the distributor.

“We [the supplier] handle the key accounts and we give the distributor all the rest. What does the rest comprise of? Grocers’ shops, wholesalers, and even supermarkets, though not the big ones. So in my opinion, it depends on the country and on the weight of the modern trade business.” (Interview, Supplier UAE).

Integrating key account management functions involves direct negotiations with key customers, joint business planning, and category management. Such responsibilities are normally handled by the distributor, but in a partially integrated model suppliers agree that integrating these functions can add further value to the organisation and can mitigate the related risks. The decision to integrate key account management functions is associated with the supplier’s scale; those who are category leaders and have the required scale may achieve better results if they integrate this function. It is important to note that scale is not only associated with the ability to afford the cost of integration, but also with market share. Suppliers who have a high market share, exceeding 20%, should consider the option of integration, as noted by a general manager interviewed.

“Carrefour looks at me [the supplier] as this guy who sells chocolate. I am powerful, because I represent that % of the chocolate market in UAE. If he sees me as the chocolate guy who represents a much lower % of the business, I am not that powerful and thus it is preferable that a distributor represents me.” (Interview, Supplier UAE).

The research is primarily interested in exploring how integrating the key account management function mitigates dyadic risks. According to insights gathered, integration brings suppliers the ability to control their spending budgets by holding direct

negotiations held with key accounts. However, in a fully outsourced model where distributors negotiate with key accounts, suppliers have limited visibility over how investments are spent (control trade funds), which drives distributors to act opportunistically. An advanced control system does not reduce this information asymmetry, but integrating the key account management function can attenuate it.

“We [the supplier] sign the contracts with major key customers and we decide how much we want to spend, depending on the targets set and the market’s potential.” (Interview, Supplier KSA).

Integration is also related to directly controlling the drivers of growth. Investments at the retail level are performance based, comments a regional sales director interviewed in KSA.

“Controlling funds means controlling the sources of growth in a big share of the market, since modern trade is now a growing trend.” (Interview, Supplier KSA).

By integrating the key account management function, suppliers in UAE and KSA with a critical scale can mitigate the risks associated with this function. In Iraq, this integration is not relevant as the modern trade channel is still small and undeveloped.

4.4.3 Integrated planning

Another difference between a partially integrated model and a fully outsourced model is associated with the involvement of the supplier in the distributor’s operations. Having an employee from the supplier side negotiating with key accounts, and another from the distributor side in charge of order taking, invoicing, delivery, and in store execution, necessitates substantial collaboration, as noted by the general manager of a reputable FMCG company in KSA.

In a partially integrated model, the supplier continues to outsource part of the operation, as seen earlier (invoicing, execution functions and logistics), to the distributor whilst only integrating the key account management functions. This poses a significant

challenge to both parties to ensure the soundness of the outsourcing relationship. The key account manager is based at the distributor's premises; the interaction with the distributor's team is on a daily basis and requires direct access to the distributor's ERP system. Different levels of collaboration are needed as the frequency of communication moves from monthly levels (advanced control systems) to daily levels. The PIM cases explored show that objectives and strategies are not set on a total country level, as is the case in fully outsourced models, but on the channel if not on the customer level. The integration of the key account management function gives suppliers full visibility. Objectives and strategies are set based on the supplier's as well as the distributor's experiences in the market. In a fully outsourced model, suppliers rely on distributors when setting objectives and strategies. On the other hand, in partially integrated models, suppliers and distributors set their long term objectives together. The vice president of a distribution company that is partially integrated with its supplier notes:

"We [the distributor] look together at how we are going to build the business for the future, what our challenges are, and what we are going to do about them." (Interview, Distributor KSA).

The alignment is not only on the strategic front but also on the operational front.

"If there is an idea with the marketing department, they are talking to each other on a daily basis. For me [the supplier], it does not matter who is creating the demand, where the idea is coming from, whether it's from the marketing guy or from the sales guy because they work together daily. So while a marketing guy might do a better job in Carrefour by understanding shopper profile and so on, he will pass the knowledge to the sales guy, who happens to be from the distributor side." (Interview, Supplier UAE).

Suppliers and distributors also align on the investment strategies that need to be put in place to accompany existing growth opportunities.

"The sales director of our supplier came and told us that he wants us to invest in an additional 100 employees. We sat with him, looked at the benefits and expected return on this investment. We gave our feedback and aligned on the steps to go forward. By

doing so, the supplier did not feel that we are over or under investing because we were mutually aligned on what to invest and why.” (Interview, Distributor KSA).

4.4.4 Information system integration

A supplier with a partially integrated model does not face significant challenges with the distributors regarding information sharing as he is able to access the latter’s information system to extract the required information. A distributor may resist collaboration if the benefits gained are not made clear to him. Cases 9 and 12 have concretely shown that information sharing is a two way process that brings benefits to both parties. By accessing the distributor’s ERP system, a supplier reduces information asymmetry and limits the level of opportunism. The benefits for suppliers thus lie in the mitigation of dyadic risks by better controlling the sources of costs and drivers of growth. In return for such collaboration, both suppliers succeeded in providing distributors with the required know-how and enhanced planning, thereby resulting in higher financial benefits. The concerned distributor notes:

“Our supplier is able to obtain whatever is required from our sales system. We deployed a joint S&OP process, which led us to discover that there is a lot of cash tied up in our warehouses. We collaborated with our supplier to optimise our inventory levels, improve our cash flow, while providing them with fresher products in the market.” (Interview, Distributor KSA).

Similar insights have emerged from Case 9:

“Our supplier helped us [the distributor] in orienting our plans to achieve better results. A promotion on Brand A can yield better results in certain areas than a promotion on Brand B, and we can only obtain this kind of information from our supplier.”(Interview, Distributor UAE).

The above conforms to the views shared by the suppliers:

“We give them quarterly news on our brands, what is happening, we provide them with sales guidelines and competition news, and we share with them shoppers' data so that they are aligned on our sales strategies by channel and what we want to achieve with them on a monthly basis.” (Interview, Supplier UAE).

4.4.5 Capability development

As seen earlier, suppliers adopting a partially integrated model are not concerned with integrating the sales execution functions, but prefer being involved in developing the capabilities of their distributors' teams. According to a sales director interviewed, the role of the salesperson in modern trade countries has evolved from an order taker to an order maker. To control their drivers of growth, suppliers adopting a partially integrated model find it more effective and less risky to invest in developing, rather than integrating, the capabilities of their distributors' teams. Suppliers and distributors share equal responsibilities for upgrading the capabilities of their teams, for exchanging talents and for sharing best practices.

- Upgrading the capabilities of their distributor teams:

“We [the supplier] have trainings that are patented for us and are shared with our distributors.” (Interview, Supplier KSA).

“We [the supplier] have a dedicated training college. We attend all the trainings together with our distributors and we therefore develop and grow together.” (Interview, Supplier UAE).

“We [the distributor] signed the contract with a the leading training companies in the Middle East, and we are now building our own training entity, which will provide full talent development programmes from induction to functional trainings.” (Interview, Distributor KSA).

- Sharing best practices and know-how:

“We [the supplier] tell them what their supply chain should look like, how their sales organisation can be designed, how they can optimise their route to market. This is all done based on sharing best practices with them, and in return we develop an efficient operation” (Interview, Distributor UAE).

- Talent exchange:

“We have talent exchange programmes; for instance I worked at the distributor's offices on a special assignment in the past. We also receive people from the distributor working with us on special projects. By doing so, we enhance the integration of our organisations.” (Interview, Supplier UAE).

4.4.6 Dedicated capabilities and focus

Another difference between a partially integrated model and a fully outsourced model is the level of focus on the supplier's brands. Focus comes at a cost, as noted by a general manager interviewed. In a fully outsourced model, the supplier does not receive enough focus; he might not have the critical scale to demand focus (Case 11), or he might have the scale but the distributor might be acting opportunistically (Cases 13, 14). Suppliers adopting a partially integrated model mitigate dyadic risks by having dedicated capabilities. Category, channel, and regional focus are positioned as the main requirements for suppliers in KSA and UAE.

- Category focus:

“You cannot have a distributor who is actually good at everything. Suppliers may prefer giving different components of the business to different distributors; milk business to Distributor A, confectionery business to Distributor B. The decision is driven by the core competencies of the distributor, and his willingness to show the supplier that he is giving the brands the necessary attention.” (Interview, Supplier KSA).

- Channel focus:

“The merchandisers of our distributors are dedicated for us, we are sure that they are spending 100% of their time on our products in the store, not on other products.” (Interview, Supplier UAE).

- Regional focus:

“We [the distributor] might not have strong presence in a specific region in KSA, so we must have to go and liaise with sub distributors to ensure that the supplier's products are available in all the regions; we invest in regional branches to cater for these sub distributors” (Interview, Distributor KSA).

4.4.7 Governance structure of partially integrated models

The governance structure of a partially integrated model is a hybrid structure that combines integration and outsourcing. Assets with low specificity for suppliers and high specificity for distributors are outsourced. On the other hand, the assets that are of high specificity for suppliers are integrated. As proposed by TCE theory, integration decisions are made based on asset specificity. It cannot be presumed that dyadic risks are fully mitigated through partially integrated models. Suppliers agree to absorb dyadic

risks associated with outsourcing assets with low specificity because the costs of integration are higher than the costs of outsourcing such assets (as seen with the similarities between FOM and PIM). Cases 9 and 12 show that suppliers are not willing to assume credit risks and the complexities of managing the execution function. They prefer to adopt an advanced control system to mitigate these risks, as depicted by the agency theory.

On the other hand, dyadic risks resulting from the inability to control the sources of costs and the drivers of growth in modern trade are mitigated by integrating assets with high specificity, as advocated by the TCE theory:

- Human assets: key account manager and capability development
- Information assets: integrated information systems.
- Dedicated assets: focus by category, channel, and region.

A partially integrated model combines the agency theory with the TCE theory and shows how suppliers and distributors can collaborate with minimal dyadic risks being encountered. This finding illustrates the operationalisation of the transactional approach, mixing between optimal contracting and integration.

The evolution of retail is positioned as an asset segmentation force since the assets of high specificity are those related to the management of modern trade. Following the cases analysed a difference between the specificity of assets in modern trade countries and in traditional trade countries has been noted.

For instance, sales execution assets and logistics assets are of high specificity for distributors mainly in Iraq but not for suppliers. This finding is confirmed with the PIM cases explored. In Iraq, most of the sales and distribution assets are of low specificity for suppliers, which explains why the optimal governance structure is a fully outsourced model, where dyadic risks are mitigated through a basic control system. In KSA and UAE, key account management assets are of high specificity, therefore integrating these assets mitigates the associated dyadic risks. Assets with low specificity, such as the human sales assets in traditional trade, human sales execution assets in modern trade, as well as logistical assets, are hence outsourced to distributors.

For partially integrated models to work, assets considered to be of low specificity for suppliers should be treated as highly specific for distributors, as noted by Cases 9, 12, and 15. In that way, suppliers and distributors have equal responsibilities in the mitigation of dyadic risks. The three cases analysed (Cases 9, 12, and 15) show that a partially integrated model is best practice for successful supplier distributor relationships in the Middle East. Partially integrated models allow suppliers to focus on value adding functions, while involving themselves in the development of their distributor capabilities. These models also allow distributors to focus on the core functions of suppliers, thus justifying their role as effective outsourcing partners.

A similarity is found between partially integrated cases (P4) and advanced control system cases (P3) when it comes to the technological (information system integration) and relational (capability development) dimensions. The human dimension in partially integrated models, on the other hand, is treated following the assumptions raised by the TCE. The partially integrated cases analysed show that suppliers integrate assets of high specificity. A similarity is identified between the specificity level of assets and the intensity level of dyadic risks. The integration of key account management functions, for instance, allows suppliers to mitigate dyadic risks associated with the inability to control trade funds. It can be assumed that in cases where suppliers are not interested in controlling trade funds (Iraq) the key account management function is of low specificity. This is why partially integrated models have been strictly observed in UAE and KSA, but not in Iraq. Advanced control systems proposed in P3 help suppliers reduce dyadic risks, but partially integrated models may lead to the elimination of certain dyadic risks. From a theoretical perspective, the governance structure that results from partially integrated models shows how human asset specificity can have a strategic role in the mitigation of dyadic risks in the Middle East. As discussed in the literature review chapter, Leavy (2004) suggests that outsourcing might lead to the erosion in skills and capabilities of suppliers, and might also be disruptive in evolutionary contexts. The integration of key account managers within partially integrated governance structures demonstrates that suppliers are not willing to compromise on the skills associated with the management of key accounts. The fact that this integration has only been observed in dynamic contexts (UAE and KSA) illustrates how, with the

evolution in the industry, suppliers are willing to reconsider certain outsourcing decisions.

As explored in the cases analysed, partially integrated models do not undermine the role of the distributor, but rather place it more in value. In most cases explored, key account managers are located at the premises of the distributors. The daily interaction between suppliers and distributors through this human interface may either impede or enhance effective collaboration. A similarity is found between all the PIM cases explored, showing that the integration of highly specific assets adds value to the relationship. Although the implicit intention of the supplier is to exercise higher control levels through this integration, the explicit behaviour of the human assets managing the relationship is the main contributor to relationship management. Partially integrated models can be considered as examples of effective supplier distributor collaboration if dyadic members orient their efforts and resources to the mutual development of trust. As defined in the literature, interpersonal trust is developed by the individual boundary spanner (supplier or distributor) in his individual opposite member (supplier or distributor) (Zaheer *et al.*, 1998). The failure to develop trust might encourage either of the dyadic members to act opportunistically, making the 4th proposition unable to provide solid theoretical grounds for understanding the mitigation of dyadic risks. The research also confirms that a prerequisite for the successful adoption of a partial integrated model is the high levels of inter-organisational trust, which is defined as the extent of trust that is placed in the partner's organisation by the member of the focal organisation (Zaheer *et al.*, 1998).

Since the findings confirm that partial integrated models represent examples of effective collaboration between suppliers and distributors, one might ask why these models have not been given more importance in the literature (Hennart, 1993). From a supply chain perspective, evidence gathered from partially integrated cases confirms the need to extend the TCE beyond the transactional boundaries (Wever *et al.*, 2012). To understand how the transactional and relational perspectives coincide, the research explores the cases that adopted vertical integrated models (extreme transactional approach) in P5 and the cases that relied on the development of trust to mitigate dyadic risks (extreme relational approach) in P6.

4.5 Dyadic Risks Mitigation (Supplier): Transaction Cost Economics Theory Proposition-Vertical Integrated Models

P5: FMCG suppliers in the Middle East mitigate dyadic risks by vertically integrating their sales and distribution activities without considering the role of their distributors.

The following section focuses on suppliers who considered mitigating dyadic risks by vertically integrating their sales and distribution activities. The same analytical framework was used to compare the similarities and differences between a partially integrated model and a vertically integrated model. Six cases are adopted in this analysis, split between three in KSA and three in UAE. In each country, the three cases comprised two vertically integrated models and one partially integrated model (See Table 4.4). The analysis does not take into account cases in Iraq, as integration is not perceived as a viable option to mitigate dyadic risks, as discussed earlier in the research.

Country	Dyadic Cases	
	PIM	VIM
UAE	Case 9	Case 4 Case 5
KSA	Case 12	Case 13 Case 14

PIM Partial Integrated Model
VIM Vertical Integrated Model

Table 4.4. Partial Integrated Models versus Vertical Integrated Models

4.5.1 Vertical integrated models: similarities with partially integrated models

The analysis performed revealed more differences than similarities between partially integrated and vertically integrated models. Two main similarities have been identified: the integration of the key account management function and the outsourcing of the logistical function.

If suppliers adopting a partially integrated model see that integrating the key account management function reduces the probability of dyadic risks occurring, then there is no

reason for suppliers to adopt a vertically integrated model to not integrate this function. The analysis of Cases 9 and 12 showed how the integration of modern trade management assets contributed to mitigating dyadic risks. This finding has also been confirmed by the VIM cases analysed in UAE (Cases 4 and 5).

“The integration of the key account manager is not just about having direct negotiation with the trade; it’s about business development, joint business planning, category management, and so on.” (Interview, Supplier UAE).

When a supplier decides to integrate the key account management function, he does not need to worry about whether the distributor is deploying the right capabilities or not. If suppliers believe that they can achieve better results in managing key accounts than their distributors, then why take the risk of outsourcing this function?

“It is very unlikely that our distributor will do a better job than we do in key account management today. With the level of expertise that we have or can attract, there is no way he can do better unless we, as a company, admit that we cannot have such expertise in-house.” (Interview, Supplier UAE).

Suppliers can build on their ability to attract better calibre resources. As noted by a regional sales director interviewed, distributors are local companies that do not offer a long term career path for people who want to grow and evolve.

“Distributors have limited capabilities to attract good people. That was acceptable in the past but it is not the case today as I [the supplier] need to have a competent person who knows how to negotiate with Carrefour or Spinneys, for example. This is how I can optimise my spending and ensure that I am receiving the right return.” (Interview, Supplier UAE).

The insights shared between partially and vertically integrated cases regarding the mitigation of dyadic risks via integrating the key account management function are very similar.

The second similarity involves outsourcing the logistical capabilities. Suppliers adopting a vertically integrated model do not see an association between dyadic risks and the integration of logistical capabilities. Distributors are not perceived as adept at concealing information about the different components of their logistical costs. The cases explored confirm that it is not necessary to integrate logistical assets since a supplier can find this service at a cheaper cost, either from his current distributor or from a specialised service provider as in Cases 4 and 5.

“You [the supplier] have to make sure that you have a good grasp of the value added responsibilities like key account management, and be able to let go of others like warehousing and delivery, when there is a cheaper way of doing it” (Interview, Supplier UAE).

Integrating logistical assets entails investing in a delivery fleet and renting several warehouses. Such capital expenditure decisions are more complex to manage in multinational companies than in local companies.

“I [the supplier] will give you an example; today if I want to add one delivery van in Abu Dhabi and we are now in February, I have to wait till May to request additional CAPEX. The process will take time and approval would not be obtained before October or November. I can then buy the van, but it will take me another few months before the process is complete and the van is delivered to us. On the other hand, I can ask my distributor to purchase the van over the phone by showing him the added value this will bring to his business and the return it will generate. The van will be bought in a month’s time at the latest.” (Interview, Supplier UAE).

Partially and vertically integrated cases have both found ways to control their distribution operations without the need to integrate the physical assets involved.

Although neither model is concerned with managing the logistical function, it has been noticed that suppliers operating a vertically integrated model are more focused on controlling the performance of the logistical operations. They do not want to absorb the financial risks associated with investments in physical assets, but rather invest in people to monitor the management of such assets.

Following the six cases analysed, it can be presumed that the similarity between Partial and Vertical Integrated models shows that TCE is an adequate theoretical avenue to understand DRM strategies:

- Assets of low specificity for FMCG suppliers in the Middle East (physical assets such as logistics) are outsourced.
- Assets of high specificity for FMCG suppliers in the Middle East (human assets such as key account management) are integrated.

These two conclusions do not reveal the elements of uniqueness of VIMs. Following the analysis of Cases 4, 5, 13, and 14 a vertically integrated model is distinguished by the following three themes: Integration of invoicing, integration of execution functions, information integration.

The analysis of the PIM cases previously showed that suppliers adopting a partially integrated model share the same perception of financial risks as those fully outsourcing their sales and distribution activities. This is not the case for a supplier who decides to vertically integrate the sales and distribution activities. Evidence gathered from Cases 4, 5, 13, and 14 shows that suppliers are willing to absorb the financial risks associated with the integration of invoicing. Even if they believe that direct invoicing to trade will expose them to credit risks, the benefits achieved are deemed much higher.

“I [the supplier] do not have to worry any more about whether the distributor is invoicing at higher prices and consequently achieving higher margins. I invoice directly to trade and I control the entire margin structure.” (Interview, Supplier KSA).

By directly invoicing to trade, dyadic risks associated with the gap between the actual margin that the distributor is making and the committed one is eliminated. In return, suppliers absorb the resulting credit risks, which can reach up to 75 days for some customers. They are also obliged to deploy more accounting people to manage the transactions and control credit risks, as noted by a general manager interviewed. The benefits are, however, justified:

“If the financial charges and the additional costs are 2% and we are able to save 2% or even 3% by controlling the price structure, the financial risks are thus diminished” (Interview, Supplier UAE).

Another difference between a partially integrated model and a vertically integrated model relates to the integration of the execution functions, including sales supervisors, sales representatives, and merchandisers. Suppliers adopting a partially integrated model exclude these functions from their integration decisions and prefer investing in training to develop their distributors’ capabilities. Such functions are perceived as labour intensive and the resulting significant complexities do not justify their integration. On the other hand, suppliers with vertically integrated models do not segregate between the management and execution functions, and consider all human assets (management and execution) of high specificity. As noted by a business development director interviewed, the integration of the execution functions enabled them to improve the efficiency and productivity of their merchandizing activities.

“Merchandising is a core function that gives you control over the quality of your execution and your availability at point of sale. Third party merchandising is more difficult to manage and motivate. In reality, you have a lot of employee turnover in third party merchandizing, which means you have to retrain and re-evaluate and track and so on. It’s a big headache.” (Interview, Supplier KSA).

By integrating the execution functions, suppliers are able to control their entire sales force by monitoring the exact number of sales representatives and merchandisers deployed, and how they need to be trained. In addition, they no longer face the risk of not receiving the right focus on their categories and brands by distributors. In a partially integrated model, a distributor can commit to having a dedicated execution function on paper, but the supplier has no means of finding out whether this has taken effect or not.

It can be argued that there are benefits gained by moving from a sales force of 10 as is the case in a partially integrated model, to a sales force of 100 as is the case in a vertically integrated model. VIM cases, however, show the willingness to absorb all resulting risks.

“Having a bigger sales force means having a bigger human resources team to manage the large number of employees. It is worth considering the benefits achieved in terms of efficiency and focus.” (Interview, Supplier UAE).

This point of view might be subjective, and is associated with the way a supplier balances between the costs and benefits of integrating sales execution teams. The cases explored (Cases 4, 5, 13, and 14) reaped significant benefits following the integration of their execution functions by improving their visibility at point of sales, and achieving better standardisation and more control over the efficiency and productivity of their execution teams. Does this imply, however, that suppliers currently outsourcing execution functions (Cases 9 and 12) to distributors are compromising on the quality of execution? One of the concerned sales directors interviewed confirms that a similar output can be achieved.

The third difference between PIMs and VIMs is on the level of information sharing. Suppliers adopting a partially integrated model mitigate dyadic risks by integrating information processes. On the other hand, suppliers following a vertically integrated model use one fully integrated information system. They do not see the need to deploy an information interface with a distributor whose role is specific and limited.

“We [the supplier] have installed the SAP system, which enables us to control all the information from shipment to invoicing; it is also integrated to the WMS (Warehouse Management System) so we know we control all the sales and supply processes.” (Interview, Supplier KSA).

Suppliers who partially integrate the sales and distribution activities can mitigate dyadic risks by integrating their systems with those of their distributors. In VIM cases, information asymmetry does not exist as suppliers control the input and the output of information. Suppliers adopting VIM are able to control qualitative KPIs (behaviour based performance), which can be achieved in PIMs but through advanced information systems.

“As the business grows and becomes more complex, the control of the quality of the execution across channels becomes important. We track quantitative KPIs, but recently we started setting qualitative targets.” (Interview, Supplier UAE).

The importance of tracking qualitative KPIs has been noted by suppliers who are assessing the shift to partially integrated models. The only difference is that they have to deploy the right information system with distributors, which would allow them to do so on a regular basis, and in a timely manner.

“We are coming closer and closer to the information available. It is just the immediacy of it. You want to know what's on the shelves in the marketplace every day, you want to know your shelf share, you want to know what your distribution is, and you want to know how to make better decisions and react better.” (Interview, Supplier KSA).

Collecting transaction based information is not enough. A distributor in a partially integrated model might be able to provide all the numerical information, but lacks the capabilities to assess and report qualitative information. A supplier adopting a partially integrated model has the responsibility to deploy the systems and processes that are able to track such information.

“You have to be able to capture what is beyond the numbers, whether it's insights on pricing, planograms, or competitor information. We are in the FMCG business, which is about speed, so the information has to be quick, relevant, and insightful. Personally, I think this is where we have to assist our distributors.” (Interview, Supplier UAE).

4.5.2 Governance structure of vertically integrated models

The analysis of the differences and similarities shows that vertically integrated models adopt a centralised governance structure. Similar to partially integrated models, assets with high specificity are integrated. A major difference, however, is that these assets are not restricted to the management functions but also incorporate the execution functions. Execution functions are highly programmable and can be controlled through conventional control systems, as specified by the agency theory. Evidence gathered

shows that vertical integration is the optimal solution for suppliers to fully mitigate relational risks. Accordingly, suppliers agree to absorb the financial risks associated with integration and perceive the cost of integration to be lower than the cost of outsourcing.

During the discussion with the suppliers adopting VIM an important difference with the PIM cases associated with the role of the distributor was noticed. A distributor has a limited role in vertical integrated models, and his responsibilities are only restricted to the logistical operation since the management and the execution sales functions are handled by the supplier, who also invoices to trade directly. Suppliers adopting a partially integrated model view the distributor as an active partner they are willing to develop, whose opinion and role matter. This is why the model is called a partially integrated model, where a good part of the sales activities is still outsourced to a distributor and the responsibilities are shared. On the other hand, the distributor for a supplier adopting a vertically integrated model is specialised in logistics services. For this reason, suppliers adopting a vertically integrated model refer to distributors as service providers rather than distributors. A general manager of a multinational vertical integrated firm described the situation as follows:

“You have the choice of being a service provider and completely divorce the concept of account management. You just let it go and do service providing. You’re like a logistics operator, and you just let us have a direct relationship with the trade, it’s a different business model with different margins. Your investment is just in facilities and in efficiencies. You will lose part of the margin cake, but you do not have to carry the same level of overhead that you would otherwise need.”(Interview, Supplier UAE).

The role of the distributor in a vertically integrated model is diminished from managing a sizeable share of the sales and distribution activities to managing a few specific functions. The logistical assets with low specificity for suppliers are outsourced to distributors. This does not imply that these assets are not important, but rather the integration costs are much higher than the outsourcing costs involved. To be performed in a cost effective manner, they require distinctive levels of specialisation. Distributors can build on their scale to play this role. This is why the physical logistical assets are of

high specificity for distributors across the three models (FOM, PIM and VIM) and especially in VIMs.

Following the interviews conducted with the concerned suppliers, it has been noticed that the term 'service provider' is not restricted to logistical operations but can also cover other operations, including the specialisation in a specific channel that the supplier wishes to explore.

“We [the supplier] look at small companies who can perform a specialised service. For instance, we are now seeking distributors specialised in pharmacies, schools, and the food service channels. These represent small channels and are better outsourced to distributors.” (Interview, Supplier UAE).

4.5.3 Critical themes that emerged from interviews

A central theme that emerged from interviews is related to the identity of the service provider, whether it is the existing distributor whose role has shrunk, or another specialised company. Three out of the four vertical integrated cases analysed (Cases 5, 13, and 14) confirm that the specialised service provider should be a newly hired company instead of the existing distributor. This shows that the vertical integration of the sales and distribution activities might lead to the discontinuation of the existing relationship, and the formation of a new relationship of a transactional nature. As confirmed by interviews conducted with the VIM suppliers, relationships with service providers are purely transactional, based on a yearly contractual fee that is restricted to warehousing and delivery.

Another element that emerged from interviews is related to the difference in the perception of risk between suppliers adopting a PIM and those adopting VIM. By agreeing to absorb the costs of integration, Cases 4, 5, 13, and 14 confirm that suppliers are risk neutral, conflicting with the predictions of the agency theory. Such risk neutrality is well calculated, however, as noted by a business development director interviewed:

“You [the supplier] need to be a business with US\$ 150M turnover to start thinking about operating on your own in KSA.” (Interview, Supplier KSA).

Data gathered shows that vertically integrated cases would not have considered such decisions had they not been able to absorb the consequential integration costs. This does not mean that PIM cases do not have the critical scale to integrate vertically. With relatively the same scale, Case 14 in KSA is vertically integrated, whereas Case 12 in KSA is partially integrated. This gap has been filled by exploring the role that trust can play in the mitigation of dyadic risks in the Middle East.

The evidence gathered does not provide strong support for full vertical integration of the sales and distribution activities in the Middle East. From a TCE perspective, vertical integration is based on the elimination of dyadic risks (Williamson, 1975). Supply network theorists also present centralisation as a means to reduce complexities across supply network (Choi & Krause, 2006). The multiple cases analysed show that vertical integration decisions in the Middle East are significantly dependent on four factors: critical scale, supplier’s predisposition to risk, relationship with distributor, and site specificity. The understanding of these factors reveals some convergence with the theory, though some divergence has also been highlighted.

A relationship is identified between vertically integrated cases and the supplier’s critical scale. Such an association has been acknowledged by the literature; a positive relationship is identified by Williamson and Riordan (1985) between the production cost function and vertical integration. A similar association is found by other authors between economies of scale and vertical integration decisions (Liang and Huang, 1998; John and Weitz, 1988). The research does not reject such a relationship, as the interviewed experts emphasised the importance of the association between critical scale and the decision to integrate the sales and distribution activities. An interviewee in KSA (Case 14) clearly stated that the integration decision had been delayed until the business achieved the minimal scale that would allow the financing of a vertically integrated governance structure. Meanwhile, the concerned supplier tolerates the dyadic risks involved, knowing that it is a matter of time before they are entirely eliminated.

The association between critical scale and vertical integration decisions is further exemplified by the cases that have achieved the required critical scale, but have not opted for vertical integration strategies (Cases, 9 and 12). The evolutionary theory seems more relevant in explaining the strategies adopted by these cases. The theory considers that firms dilute their strength as they integrate specific activities (such as sales and distribution) that can be outsourced to other firms that are more specialized and can achieve better results. Some authors even suggest that firms start as vertically integrated units, but move to further disintegration and specialisation as they gain scale (Stigler, 1951; Agarwal, 1997). It has also been argued that such an approach results in transaction cost optimisation (Lamoreaux *et al.*, 2003). In dynamic environments where firms are strategically driven to focus on their core capabilities specialisation is key (Teece, 2011). In contrast to the TCE approach, which encourages integration, the evolutionary theory somehow favours disintegration (Langlois, 2003). Through specialisation, or even hyper specialisation (Malone *et al.*, 2011), both suppliers and distributors can leverage on their core competencies, and improve the quality of their services, which will ultimately lead to lower transaction costs and higher returns. The cases that have the critical scale but have not adopted vertical integration strategies demonstrate the direction proposed by the evolutionary theorists. Evidence collected from these cases demonstrates conviction in outsourcing the sales and distribution activities to distributors who can achieve better results in terms of cost and quality of services. The concerned suppliers prefer to focus their attention on brand building and capability development, whilst distributors focus on the sales and distribution activities across the various retail channels. This direction proved successful, thus demonstrating that vertical disintegration may be as (if not more) relevant as vertical integration even for suppliers who can afford the resulting integration costs.

The second factor discusses the supplier's predisposition to risk. This factor is presented as an important difference between the cases adopting vertical integrated structures and those adopting full outsource (BSC, ACS) or partial integrated structures. Suppliers willing to vertically integrate their sales and distribution activities exhibit neutrality towards the associated risks, and do not mind absorbing financial and market complexity risks. One might assume that these suppliers associate higher implication levels to dyadic risks than to financial or other market risks. The benefits that result

from the full control of the various transaction cost components outweigh the costs of integration, thus justifying the decision to absorb the associated risks. A convergence is identified between this finding and the assumption raised by transactional theorists (Williamson, 1975; Demiski and Feltham, 1978; Eisenhardt, 1988; Alchian and Demstet, 1972). The divergence from the theory is noted by the cases that did not opt for vertical integration (BSC, ASC, VIM). Those suppliers are considered to be risk averse, as they are not willing to absorb the risks of integration even if they can afford the associated costs. The agency theory assumes risk neutrality of suppliers (Eisenhardt, 1988; 1989), thus this finding diverges from the theory and demonstrates that suppliers favour dealing with dyadic risks rather than eliminating them. Strategies such as the deployment of a control system (BCS or ACS) as shown in P3, and those associated with partial integration as confirmed by P4, are tangible supporting evidence. This divergence is considered substantial as the number of these cases (11 out of 15) outweighs those that implemented vertical integration (4 out of 15 cases). This evidence shows that P5 is strictly restricted to suppliers who prefer to eliminate dyadic risks rather than seeking means to manage them, regardless of the associated risks. It is premature to judge which approach will prevail in the future, as the vertically integrated cases explored were in their early maturity levels, where the decision had been taken either during the data collection phase or slightly before it. If vertical integration decisions led to substantial implications for performance, the risks taken by suppliers are justified and the associated costs are absorbed. Other suppliers will follow and supplier distributor relationships in modern trade countries in the Middle East will be witnessing increasing vertical integration trends. On the other hand, if vertical integration decisions do not lead to the desired outcomes, the future will witness trends that shift away from vertical integration. The same rationale is applicable to dyadic cases opting for ACS or PIM. It is worth exploring the implications of vertical integration decisions on suppliers' performance in future research. This limitation is discussed later on in the dissertation.

Evidence at hand shows that a risk neutral behaviour cannot be generalised to all suppliers, unlike what is predicted by the theory, but a risk averse behaviour has been predominantly observed with most of the suppliers interviewed. Predominant strategies are those that favour dealing with dyadic risks and that assume that agency costs remain

lower than integration costs. The hidden costs associated with integration discourage the majority of interviewed suppliers from adopting VIM strategies.

It has been noticed that the relationship with the distributor is a critical third factor in vertical integration strategies. An important similarity is found between cases adopting VIM strategies and the relationship status with their previous distributors. Vertical integration has been positioned as the outcome of relationship or contract failure, as predicted by TCE theory (Williamson, 1975). Evidence collected, however, shows that some of these suppliers have resorted to the vertical integration decision as a last option. Prior to deciding on vertical integration, these suppliers tried to restore their relationships with their distributors by exploring partial integrated models (Cases 4 and 14). A day to day interaction experience (PIM) increased the level of relational friction; instead of mitigating dyadic risks it led to their amplification. From a theoretical perspective, this finding shows that the relational approach is given priority over the transactional approach, supporting the assumptions of relational theorists (Granovetter, 1985; Rooks *et al.*, 2000; Dyer & Singh, 1998). Following this perspective, it can be assumed that the failure to develop trust between suppliers and distributors may lead to a termination of the relationship, and accordingly to vertical integrated governance structures. Such a conclusion is partially relevant as evidence collected from this research shows that in the Middle East it is essential to disassociate between the failure to develop inter-organisational trust and the failure to develop inter-personal trust, as defined by Zaheer *et al.* (1998). Evidence gathered from Cases 4 and 14 show that the failure to develop inter-personal trust leads to the transformation of the distributor role within a vertically integrated structure due to the high level of inter-organisational trust. In Case 4, for example, the supplier vertically integrated the sales and distribution activities and kept the logistical services with the distributor. In Case 14, the supplier has also integrated the sales and distribution activities while seeking strategic alliance in manufacturing with the distributor.

Evidence gathered from Case 13 shows that a lack of inter-organisational trust leads to the elimination of the role of the distributor within a vertical integrated set-up. This demonstrates that the development of relationship specific assets (Dyer & Singh, 1998) should focus on the development of both inter-personal and inter-organisational trust.

Both types of trust are important to sustain and develop the relationship, as presented in P6. However, a disruption to the inter-organisational trust is translated into a permanent break of the dyad (divorce), whereas a disruption to inter-personal trust leads to a transformation of the dyad in contexts of high levels of inter-organisational trust. The relationship with the distributor accordingly dictates whether vertical integration strategies should be considered or not. Moreover, it dictates what form of integration to take, one that transforms the role of the distributors in cases of high levels of inter-organisational trust and low levels of inter-personal trust, or one that eliminates the distributor role due to the lack of inter-organisational trust.

The fourth factor focuses on the supplier's site specificity. Although the research only examines the downstream activities across the supply chain (sales and distribution), a similarity is found between the upstream integration of suppliers and their downstream integration strategies. The four suppliers who integrated the sales and distribution activities have factories established in the markets. Although the interviewees did not make much association between their upstream participation and the downstream decisions across the supply chain, having manufacturing facilities gave them an advantage over other suppliers who are only represented through commercial offices. These suppliers are familiar with the local laws, already have employees in the markets and have already taken the risk in terms of investing in manufacturing operations. This learning advantage may encourage the consideration of full integration strategies, upstream and downstream. Exploring the association between upstream and downstream strategies across the supply chain is out of the scope of this research, but from a TCE perspective one can note that site assets (Williamson, 1975) can be considered of high specificity for suppliers adopting VIM strategies. As these suppliers have chosen local sourcing to optimize their transaction costs, and since they are already established in the market, they view the integration of the sales and distribution activities as an incremental opportunity to seek further transaction cost optimisations.

Through the above four factors, it can be concluded that TCE theory is a relevant theoretical avenue to understand the mitigation of dyadic risks, but the relevance of the theory is only supported by four cases out of fifteen cases. The other 11 cases demonstrated that the dynamic capability approach (1st factor) and the relational

approach (3rd factor) favour dealing with dyadic risks over eliminating them. Moreover, an important divergence from the theory is noted when it comes to the efficiency of integration versus the benefits of disintegration (factor 1) and when it comes to the supplier's predisposition to risk (factor 2). Following these four factors, it can be concluded that vertical integration strategies can be positioned as optimal strategies to mitigate dyadic risks in specific cases where:

- Suppliers have the critical scale that allows them to absorb the costs of integration.
- Suppliers are risk neutral and perceive the risks of integration to be lower than the risks of outsourcing.
- Suppliers have experienced a negative relationship with their distributors (lack of trust) mainly on the inter-organisational front.
- Suppliers are physically established in the market through manufacturing facilities.

As trust has been positioned as a main determinant of relationship failure or success, the research has highlighted the role of trust in dyadic relationships in the Middle East. The sixth proposition specifically explores how trust is developed between suppliers and distributors in the Middle East. This helps in understanding the areas of convergence and divergence between the relational and the transactional approach, which is a major gap emphasized by the research.

4.6 Dyadic Risks Mitigation (Supplier and Distributor): Relational Approach-Trust

P6: The development of trust between suppliers and distributors contributes to mitigating dyadic risks.

The various cases explored demonstrate that the transactional approach is capable of explaining the strategies adopted by suppliers to mitigate dyadic risks. By exploring the

role that trust plays in dyadic FMCG relationships in the Middle East, a more complete picture of the DRM strategies can be provided. The analysis of P6 is conducted by examining the similarities and differences between four sets of cases:

- Cases where trust contributed to the evolution of the relationship between suppliers and distributors
- Cases where trust led to the reassessment of the relationship between suppliers and distributors.
- Cases where the lack of trust led to relationship failure.
- Cases where trust had a neutral effect on the relationship.

4.6.1 Cases where trust contributed to the evolution of the relationship

Trust proves to play a positive role in the mitigation of dyadic risks across Iraq, KSA and UAE. A similarity has been identified between FOM cases in Iraq (Cases 1 and 2) and PIM cases in both KSA (Cases 12 and 15) and UAE (Case 9). These similarities show that suppliers and distributors have a shared responsibility for the development of trust. Evidence gathered demonstrates that trust is positioned as a dyadic risk mitigation strategy that complements the transactional approach. Trust is developed between suppliers and distributors following the exchange of economic and non-economic rewards between the dyadic members. Some of the themes that explain the development of trust have been discussed in the literature and others have emerged from the interviews.

Four secondary themes have been grouped under economic rewards: fair margins, investment in human assets, investments in physical assets, and investments in systems.

A supplier who does not give a fair distributor margin should not expect the same level of output compared to other suppliers. A fair margin entails being clear about the capabilities to be deployed (bearing in mind the associated costs). This describes a fair supplier distributor relationship where each party is apprehensive about the financial interests of the second party. Such a situation has been observed in the two outsourced cases in Iraq, and in all the partially integrated cases in UAE and KSA.

“We ask our distributor to absorb all the risks in Iraq. How can we motivate him to do that if we are not compensating with an acceptable margin?” (Interview, Supplier Iraq).

By outsourcing the sales and distribution activities, suppliers are transferring environmental and financial risks to distributors. What prevents FOM and PIM cases from vertically integrating sales and distribution activities is their reluctance towards absorbing the related integrating risks. The cases explored confirm that relationships based on fair economic foundation are the ones that will succeed (Cases, 1, 2, 9, 12, and 15).

“I [the supplier] am with a cost plus contract because it covers the costs incurred by my distributor. Because we might not agree on how costs are calculated, we opted for a margin contract that is close to the market average, and in return the distributor is giving us the necessary capabilities to meet with the competitive environment” (Interview, Supplier KSA).

The second theme includes the investments in human assets. Some suppliers have established a special training college (Case 9) for the development of their own employees as well as those of their distributors.

“We [the supplier] do not differentiate between employees; they receive the same learning. We have one content and we share the same message, so that the distributor’s employees become qualified like our employees and thus operate similarly, which is a dream come true.” (Interview, Supplier UAE).

This same supplier has also initiated a talent exchange program that aims at retaining talent within the distributor’s organisation by providing them with a chance to participate in special assignments at the supplier’s offices.

Distributors have also invested in dedicated capabilities from their end, to accelerate growth and optimise their cost to serve. Pre-empting the sources of dyadic risks leads to their mitigation long before their actual occurrence. As highlighted by a general manager interviewed, companies need to invest behind trust. Investment in inter-

organisational trust from a distributor perspective means investing in assets deemed of high specificity for suppliers. This requires a precondition to raise the awareness about the specificity of those assets which fall under the joint responsibility of suppliers and distributors. The capabilities to manage a modern trade market and the costs involved are different from the ones required to manage a traditional trade market, as explained by the regional sales directors of a supplier in UAE. Both companies anticipated the rise in modern trade, and thus prepared their distributors to adapt their capabilities to the channel context. In turn, their distributors have met them half way by conducting their own training programmes. To retain and develop talent to meet the expectations of suppliers, distributors of partially integrated cases also invested in talent development programmes. They are also active in participating in academic job fairs to attract fresh graduates that are dedicated to suppliers.

“We have an organisation that fits the need of a modern trade market. We always refresh our team with fresh talent to show our suppliers that we are very active on people related topics; we know that this is important for them” (Interview, Distributor UAE).

Investments in physical assets have also been classified as a category of economic reward that drives trust. Suppliers adopting FOMs and PIMs are not concerned with investing in physical distribution assets, but expect their distributors to have the most efficient logistical capabilities. Distributors who succeeded in gaining their suppliers’ trust made substantial investments to upgrade their logistical infrastructure by building supply chain operations, allowing them to offer the best services at lower costs. Cost optimisation is achieved by scaling up the operation to other suppliers. As long as a distributor is offering a competitive cost, suppliers should not care how those costs are allocated, highlights a general manager interviewed.

“Due to our fully automated best in class warehouses we were able to improve our service level by 30%. We want to make sure that we are offering the best storage conditions that will benefit our suppliers and any other company seeking logistical services.” (Interview, Distributor UAE).

“If we do not want to invest in logistics this does not mean that logistics is not important to us. When our distributors seek state of the art logistical infrastructure, they are indirectly telling us that they care about our products.” (Interview, Supplier KSA).

Investment in physical assets is not only associated with investments in vehicles and distribution centres, but in systems and processes as well. Distributors who create synergy and synchronise their systems with those of suppliers represent tangible examples of how far inter-organisational trust can go. Distributors are aware that in a competitive world where it is becoming more difficult to anticipate demand variation, demand management and forecast accuracy are becoming of strategic necessity. Distributors develop trust by building integrated information systems, which leads to integrated S&OP planning.

“They can access our system from their offices through a web EDI interface, they basically see everything.” (Interview, Distributor KSA).

In a context of trust, suppliers and distributors agree that the period of hiding information has long disappeared. Nowadays, an open book policy is practised where all sorts of information is shared, including financial reports. Distributors are aware that, in situations where suppliers are seeking different financing alternatives to accelerate their growth, they cannot block them from having full visibility over their cost structure. By giving suppliers access to such information, distributors show a transparent attitude, which strengthens the level of trust achieved. Most suppliers interviewed reject operating in the dark. Transparency is positioned as a founding pillar of trust, as agreed by most of the cases.

“Transparency is important in the development of trust, specifically in a context where information is abundantly available everywhere and in different forms.” (Interview, Supplier KSA).

Transparency has to be mutual. Suppliers and distributors both agree that transparency is not only restricted to receiving information, but also includes transparency in the way objectives and strategies are set.

“We [the distributor] are clearly aligned on the objectives of our supplier in the market and we are aware that we need to reinforce our capabilities to meet the needs of our supplier. As long as the supplier shares with us the why and how, it is enough.” (Interview, Distributor UAE).

The investment in non-economic rewards has also been also viewed as an important driver of trust.

Four secondary themes have been grouped under the non-economic rewards: value transfer and adoption, quality of the teams managing the relationship, investment in time, and long term orientation.

Interviews held with some distributors (Case 1, 9, and 12) led to the perception that interviews were being conducted with the suppliers instead. They assert that adopting the values of suppliers is one of the most successful factors in the relationship. The concerned suppliers succeeded in applying their values externally with their distributors. A corporate value mentioned is mutuality, which according to a general manager interviewed, is a mutual shared benefit that can take many forms, financial and non-financial.

“Many multinational companies have values that can be found on their websites, but only a few are able to apply them in reality.” (Interview, Supplier Iraq).

This supplier was able to measure its strategies and actions with the distributor through the mutuality principle. Experts interviewed stressed the importance of transferring their values to distributors and encouraging them to adopt these values. The insight shared by the vice president of a distribution company confirms that such value can be positioned as a safeguard for distributors:

“It tells us [the distributor] that our supplier will support us in good times and bad times. We celebrate success together; in fact we are going to South Africa tomorrow to celebrate our achievements in 2012. ...We identify solutions together; we share certain

risks, we are now in a discussion to see how we can minimise the financial impacts of certain laws set by the government.” (Interview, Distributor KSA).

If a supplier believes that in today’s competitive world, having a strong partner across the downstream sales and distribution chain is a key competitive advantage, then he should try his best to set values to protect this relationship. Trust is not only about setting a value like mutuality, but also about putting such values into action. Although separate interviews were held with suppliers and distributors, the cases that succeeded in transferring the values of collaboration, trust, and mutuality can explicitly be noticed simply by matching the language used by both suppliers and distributors.

“The model we [the supplier] have in KSA is not a model that we use exclusively in KSA. Given that one of our values is mutuality, or win-win, if we feel that the distributor is making too much money, then we intervene and we say: ‘You just have to be more mutual and give back’. Similarly, if he is not making enough money, we intervene to make sure we dissect his income statement to find inefficiencies, or we decide to sacrifice some of our profits to compensate his margins.”(Interview, Supplier KSA).

The same theme is replicated in Case 9 of a supplier who is criticised by others for ‘moulding’ its distributors. The term moulding was used by at least three non-associated interviewees. This did not seem to be an issue for the involved distributors, who demonstrated pride in embracing the culture of their supplier. Trust is found among the core values of this supplier; it is about having confidence in each other’s capabilities, as expressed by the regional sales director interviewed.

“Who said that integrating certain capabilities means we can do a job better than our distributor?”(Interview, Supplier UAE).

The suppliers that succeeded in transferring values of trust to distributors (Case 1, 9, and 12) demonstrated that trust is not about having positive intentions, but about believing in each other’s capabilities. This theme, which emerged from interviews, may be one of the driving pillars of partially integrated models. To be able to cascade these values, the

right people are needed from both sides of the dyad. This led us to another emerging theme related to the quality of teams managing the dyadic relationship.

The quality of the team managing the relationship is a second type of non-economic reward. The teams managing the relationship have to ensure that trust is practised on a daily basis. This has been clearly noted by the sales directors interviewed. The integration of the key account manager can bring benefits that are either mutual to both suppliers and distributors (win/win situation), or restricted to suppliers (win/lose situation). If the person adapts a coercive approach and uses the integration model to exert a controlling role, inter-personal trust deteriorates as a result. On the other hand, if the person adopts a rewarding approach and uses integration to engage and motivate the sales teams, inter-personal trust is strengthened.

“It’s all about synergy and day to day harmony.” (Interview, Distributor KSA).

People may give wrong signals and this becomes very delicate when interaction takes place on a daily basis. Many examples were shared by distributors who had asked suppliers to either change or keep the person managing the relationship. Investments in dedicated assets contribute to the development of inter-organisational trust. Inter-personal trust is also important and can be both constructive and destructive. One of the suppliers interviewed is dealing with the same distribution company in both UAE and Lebanon. Inter-organisational trust is high in both countries, but the supplier had issues on the inter-personal front with the team in UAE, which had negative consequences on the overall relationship. The supplier had to reassess the role of its distributor in UAE due to the lack of inter-organisational trust. Examples shared during the interviews made this theme an important driver of successful collaboration and trust development between suppliers and distributors.

Trust in the Middle East appears to be developed, not only through investments in kind, but through investments in time. Supplier and distributor teams have to dedicate special time to review the business across all organisational levels starting from the owners all the way to merchandisers. The owner of a key distribution company interviewed plans a yearly meeting with the president of the supplier organisation to discuss the vision and

key strategies in KSA. The CEO of the distributor plans quarterly meetings with the supplier's CEO to discuss macro performance figures and the general managers meet on a monthly basis to focus on the performance of the month and the key actions required.

The frequency in communication and time dedication is not only restricted to the upper part of the organisation, but also applies to middle and the lower management. Building trust, notes the vice president interviewed, cannot be done overnight, but requires months if not years. Suppliers have to constantly invest in time in order to draw the distributors to their businesses.

A main challenge of a partially integrated model is the ability to make this model work by giving it enough time to work, highlights a general manager interviewed.

As trust is driven by investments in financial and non-financial rewards, it might be relevant to ask how suppliers and distributors view their return on investments. Dyadic members who succeeded in investing behind trust (Cases 1, 2, 9, 12, and 15) do not expect to realise the return on their investments in a year or two. Investment in trust development actions is not like investing behind a promotion, noted one of the interviewees. The cases explored confirm that suppliers and distributors need to consider long term returns behind their investments, be it investments in tangible assets to drive economic rewards, or investments in intangible assets to drive non-economic rewards. Suppliers are used to long term planning, it takes time to build brands, expressed a business development director interviewed in KSA. For this purpose, embracing a long term culture might not be an easy task, especially for distributors. The cases explored confirm, however, that some distributors have started looking beyond the benefits that are generated today.

“I do not expect to achieve the return on my investments tomorrow. I know that I have to pay higher salaries than multinational companies to attract good calibre employees, but I believe that these investments will pay off in the future.” (Interview, Distributor KSA).

Suppliers seemed more assertive when distributors do not lock themselves in the present, but instead explore future opportunities. Cases 1, 2, 9, 12 and 15 show that the profitability of dyadic relationships should be measured over an extended period of time. It is then that one can judge whether the investment behind trust pays off or not. A CEO of an FMCG supplier notes:

“When distributors start creating friction because they only look at how much money they will make this year, it is then when the relationship starts taking undesired routes for everybody.” (Interview, Supplier UAE).

Table 4.5 provides a summary of the trust development themes in association with opportunism. The table shows that all discussed themes provide evidence of benefits that are long term and mutual (opposite to private benefits) and some themes demonstrate that information symmetry (opposite to information asymmetry) may exist between suppliers and distributors. Such findings confirm that for specific dyadic cases in the Middle East, trust development is positioned as a strategy that complements formal contracting and integration.

If trust has such importance, then it is valid to assume that a lack of trust may lead to a review of the relationship or even to relationship failure. Evidence was gathered from antagonist cases where a lack of trust has led to negative relational outcomes.

Cases where trust contributed to the evolution of the relationship between Suppliers and distributors				
	Mutual Long Term Benefits	Information Symmetry	Antagonist to Opportunism	Applicable cases
Fair Margins	Yes	not relevant	Yes	FOM (Iraq) Cases 1 Case 2 PIM (KSA) Case 12 Case 15 PIM (UAE) Case 9
Investments in human assets (training)	Yes	not relevant	Yes	
Investments in physical assets (logistics)	Yes	not relevant	Yes	
Investments in systems	Yes	Yes	Yes	
Transparency	Yes	Yes	Yes	
Value Transfer and Adoption	Yes	Yes	Yes	
Quality of the teams managing the relationship	Yes	Yes	Yes	
Investment in time	Yes	Yes	Yes	
Long term orientation	Yes	Yes	Yes	

Table 4.5. Relationship Evolution Cases

4.6.2 Cases where trust led to the reassessment of the relationship

Six cases explored revealed relationships that can be described as unstable (Cases 3, 6, 7, 8, 10, and 11). In these cases, trust needed some restoration, mainly from the distributors' side. Trust might positively evolve at a later stage if suppliers and distributors adapt the trust development actions presented in the above, or deteriorate to lower levels otherwise. From the cases analysed, specific themes were detected that make suppliers reassess their current relationship with their distributors.

It is not enough for a distributor to be recognised as one of the best if he fails to give the same level of attention to all the suppliers he contracts with. The lack of focus has been positioned as a first theme of trust deterioration. Suppliers are apprehensive if they feel that their distributors favour other suppliers over them. The behaviour of the distributors is, however justified:

“It is normal that they obtain more focus, they represent 85% of his business, but we [the supplier] want focus as well.” (Interview, Supplier KSA).

Lack of focus led suppliers to consider various options, one of which was the move to other distributors where their business has higher contribution weight, as happened with Case 11. Some have given their distributors a final chance to review their organisation and give them a dedicated team. This action required certain sacrifices from both members of the dyad. The general manager notes:

“We [the supplier] know that a dedicated structure will cost us more, we agreed to increase the distributor margin and he deployed a dedicated sales force for our business in return.”(Interview, Supplier KSA).

Suppliers and distributors mutually agreed that trust comes at a cost. Each of the two parties presented signals of trust by agreeing to be less opportunistic. Had this not been done, the relationship would have almost certainly taken a downturn. Some distributors refused to make such extra efforts, which led suppliers to consider other alternatives outside the existing relationship (Case 11).

Some suppliers are currently undergoing transformations to their distribution models (Cases 6, 8, and 10) with the purpose of shifting to a distributor able to cater for their growth ambitions. The lack of trust in the distributor's capabilities has been viewed as a second theme that leads to the reassessment of the relationship between suppliers and distributors.

"We are now consolidating our distributors; we want to move from six to two distributors. The distributor who proves incapable of driving our category share in UAE will be phased out." (Interview, Supplier UAE).

Some distributors failed to build their suppliers' confidence in their capabilities. Such action is vital to restore trust, notes a general manager interviewed:

"To gain back our trust, he [the distributor] simply needs to build our confidence in his capabilities." (Interview, Supplier UAE).

The third theme that drives suppliers to reassess their relationship includes actions associated with a distributor's resistance to change. As shown earlier, some suppliers believe that cost plus contracting is the optimal solution to mitigate dyadic risks. A cost plus contract will have dual benefits, the control of costs and the control of the quality of capabilities deployed to manage the business. If the distributor is aligned with these conditions and is ready to invest in dedicated capabilities, issues of trust will not be faced. Some distributors only capture the private benefits of their supplier's actions and do not believe in the concept of mutuality (Cases 8 and 10). The move to a cost plus contract is thus negatively perceived as distributors might focus solely on the possible reduction in their margins. Suppliers are faced with a high resistance to change, as noted by a CEO interviewed:

"Some distributors are afraid to change. This is understandable, but if they continue to do so, this will work to their disadvantage." (Interview, Supplier UAE).

Such behaviour is common to short-term oriented distributors who only seek immediate personal benefits. Sustaining such behaviour may lead to further deterioration in the

levels of trust, which consequently results in relationship failure, as has been witnessed by the three cases explored in the following section. Restoring the levels of trust entails overcoming the notice period that is given by their suppliers. During this period, distributors have to re-establish their relationships with suppliers by considering trust development actions through learning from what other distributors did (Cases 1, 2, 9, 12 and 15 analysed previously). Issues faced by the second set of cases are summarised in Table 4.6.

Cases where trust led to the assessment of the relationship between Suppliers and distributors.				Trust Restoration
	Private Short Term Benefits	Potential Opportunistic Behavior	Possibility of Relationship Failure	Applicable cases
Lack of Focus	Yes	Yes	Yes	FOM (Iraq) Case 3 FOM (KSA) Case 11 FOM (UAE) Cases 6,7, 8,10
Lack of Trust in Distributor's capabilities	Yes	Yes	Yes	
Resistance to Change	Yes	Yes	Yes	

Trust Restoration
Fair Margins
Investments in human assets (training)
Investments in physical assets (logistics)
Investments in systems
Transparency
Value Transfer and Adoption
Quality of the teams managing the relationship
Investment in time
Long term orientation

Table 4.6. Relationship Restoration Cases

4.6.3 Cases where the lack of trust led to relationship failure.

These cases are in contrast to the dyadic cases explored that have succeeded in building trust, and include suppliers who have terminated their relationships with distributors due to a lack of trust (Cases 4, 13, and 14).

“We [the supplier] were not able to obtain the smallest piece of information from him; he simply does not believe in information sharing” (Interview, Supplier KSA).

These relationships may have lasted for a long period of time, e.g. Case 13 lasted more than 60 years, during which no concrete actions were taken to strengthen the levels of trust. The decision to terminate the relationship was taken in 2012 due to the recurrence of dyadic risks.

Another similar case (Case 14) is observed by a distributor who failed to upgrade its team’s capabilities after being given the chance to do so. The supplier decided to shift to cost plus contracting, which exposed the fact that the costs incurred by the distributor

were exaggerated. The distributor was presenting fictitious investments that he claimed to have made.

“We [the supplier] discovered that we were paying for costs that are not actually spent.” (Interview, Supplier KSA).

Although the supplier has adopted a cost plus contract to mitigate dyadic risks, the actions taken by the distributor led to contract failure.

“When I [the supplier] give my distributor a million dollars to spend on an activity there is a possibility that our distributor spend the money differently than the agreed plan. This presented an issue. Although we would audit them, you can only audit what they show you.” (Interview, Supplier KSA).

Suppliers may lose their trust in the ability of distributors to meet their ambitions in the market.

“A central concern was that we [the supplier] did not think they were fit for the future. Friction was increasing, people were not focused on our business, and they were not willing to invest.” (Interview, Supplier KSA).

The cases that witnessed a relationship discontinuation are those that considered the shift to a vertically integrated model to mitigate dyadic risks. This demonstrates that the failure of the relational approach drives suppliers to consider extreme transactional alternatives. Only one exceptional case was encountered where no association was traced between the relational approach and the transactional approach. A neutral effect of trust is hence depicted.

4.6.4 Cases where trust had a neutral effect on the relationship.

Some suppliers give little importance to the role of trust when considering dyadic risk mitigation strategies. It can be assumed that this is a very rare situation in the Middle East, as only one case (Case 5) of a supplier who vertically integrated the sales and

distribution activities without taking into account the historical relationship with its distributor was explored.

“Trust in our previous distributor had nothing to do with our integration decision. We decided to integrate and take over the operation because it was a strategic direction from the group, we made sure that we paid him a reasonable indemnity nonetheless.” (Interview, Supplier UAE).

This case confirms that suppliers may consider unpredictable Dyadic Risk Mitigation actions.

4.6.5 Relational approach versus the transactional approach

The majority of the cases confirm that FMCG suppliers in the Middle East view trust as a dyadic risk mitigation strategy that complements formal contracting. Specific themes, some of which were predicted by the research while others emerged from interviews, contribute to the development of trust in the Middle East (See Table 4.7).

	Risk mitigation strategies - Trust Development Themes								
	Economic Rewards				Non Economic Rewards				
	Fair Margins	Investments in human assets (training)	Investments in physical assets (logistics)	Investments in systems	Transparency	Quality of the teams managing the relationship	Investment in time	Value Transfer and Adoption	Long term orientation
Frequency of mentions in data	28	38	34	23	48	14	15	8	13
Dyadic Member	Supplier	Both	Distributor	Both	Both	Both	Both (mainly Supplier)	Both	Supplier

Table 4.7 .Trust Development-Recurrent Themes

Table 4.8 shows that trust is a complement to both Partial Integrated Models and Advanced Control Systems. Five cases explored show that trust contributes to the evolution of the relationship between suppliers and distributors. Six cases examined show that suppliers are reassessing their relationships with distributors based on trust. Three cases confirm that VIM is considered in situations of lack of trust, showing that relationship failure may lead to alternative governance structures.

The 14 cases examined addressed the issue about whether trust influences the relationship between suppliers and distributors or not. Trust is presented as a dyadic risk mitigation strategy, since the cases that exhibit high levels of trust are those that are least affected by dyadic risks. As suggested by the literature, this confirms that trust is a way of countering opportunism. While trust appears to be important across the three contexts explored, it is positioned as a complement to formal contracting in partially integrated governance structures in KSA and UAE. It is noted in P4 that partially integrated governance structures combine the AT and the TCE. For a partially integrated model to work effectively, both parties have to congruently develop trust, as shown by the dyadic Cases 12, 15, and 9. The PIM thus combines the AT (ACS), the TCE (PIM) and trust.

The cases of relationship failure led to the conclusion that the transactional approach can take the place of the relational one where trust does not exist (Cases 13, 14, and 4). The antagonist cases analysed do not neglect the importance of trust in mitigating dyadic risks. They show that a supplier starts by considering a mitigation strategy based on trust, the failure of which leads him to either integrate or consider other mitigation options.

Relational Approach: Role of Trust	DRM	Proposition	Applicable Dyadic Cases			# of Cases
			Iraq	KSA	UAE	
Cases where trust contributed to the evolution of the relationship between suppliers and distributors	PIM	P4		Case 12,15	Case 9	3
	FOM-ACS	P3	Cases 1,2			2
Cases where trust led to the assessment of the relationship between suppliers and distributors.	FOM-BCS	P3	Case 3	Case 11	Cases 6,7,8,10	6
Cases where the lack of trust led to relationship failure.	VIM	P5		Cases 13,14	Case 4	3
Cases where trust had a neutral effect on the relationship.	VIM	P5			Case 5	1
						15

FOM: Full Outsource Model
PIM: Partial Integrated Model
VIM: Vertical Integrated Model
BCS: Basic Control System
ACS: Advanced Control System
DRM: Dyadic Risk Mitigation

Table 4.8. Trust Development Cases

As suggested by relational theorists, the cases explored confirm that the mitigation of dyadic risks are not only explained by the transactional perspective, but also consider the relational perspective. The relational perspective is supported by 14 cases where trust plays three different roles (relationship evolution, relationship restoration and

relationship failure). Only one exceptional case that shows that trust may have a neutral effect (Case 5) was noted.

The dynamic nature of trust development is illustrated in Figure 4.2. The figure maps the 14 cases analysed based on the three different roles that trust appears to play. The figure shows that the failure to restore the levels of trust (6 cases) drives the dyad to the left side of the framework, ultimately leading to relationship failure, driving suppliers towards alternative governance structures, as confirmed by the three VIM cases. The same member may succeed in restoring the levels of trust, which drive him towards further integration and collaboration, moving to the right side of the framework.

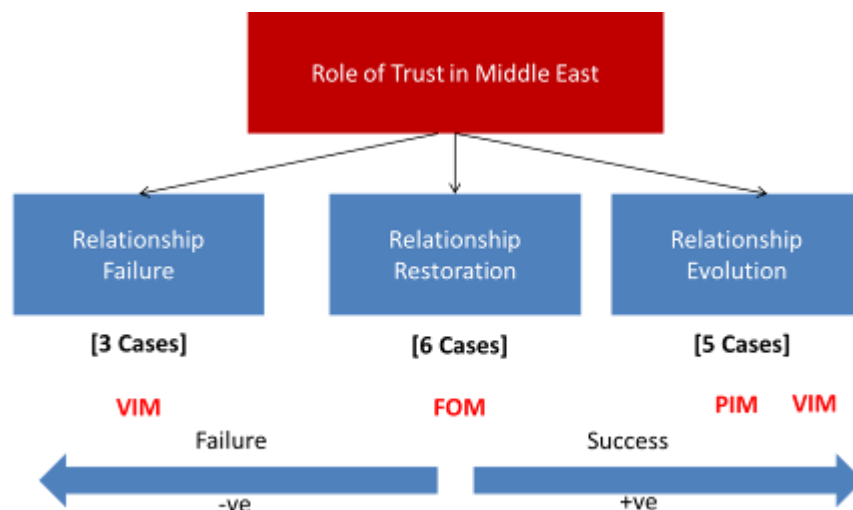


Figure 4.2. Dynamic Nature of Trust Development

The findings associated with the DRM strategies adopted by suppliers (P3, P4, P5, and P6) confirm the relevance of the theories that were chosen by the research to understand how suppliers react to dyadic risks.

The examination of multiple dyadic cases across three different contexts shows that the DRM strategies adopted by suppliers are not static in nature. The research confirms the assumption raised by evolutionary theorists related to the adaptation of the firm through market adaptive processes to changes in the environment (Nelson and Winter, 1982). TCE positions vertical integration and centralisation as the most optimal governance structure. The current research demonstrates that vertical integration is one (P5), but not the only, option (P3 and P4) available. According to TCE, a fair comparison between a full outsource and a vertical integrated governance structure should account for the

various outsourcing costs, such as agency costs, monitoring costs, coordination costs, and opportunity costs (Williamson, 1975; Alchian and Demstet, 1972). Therefore, suppliers in the Middle East appear to favour vertical integration only when they can afford the related costs, and when their relationships with their distributors have reached deteriorating levels.

The vertically integrated cases explored considered the option of VIM only after critical scale was reached, allowing them to absorb the costs of integration, and after failing to restore their relationships with distributors. The research has also shown that a variety of DRM strategies can be considered by FMCG suppliers, though some were more dominant than others, depending on the context of the relationship. A control system DRM strategy based on the propositions of the agency theory is perceived to be the optimal strategy in Iraq, whereas in UAE and KSA the choice is between a PIM and a VIM strategy. In dyadic relationships in the Middle East, trust has been positioned as a pivotal force, which confirms the importance of cultural diversity in relation to trust (Bohnet *et al.*, 2010).

The research shows that the dyadic relationship between suppliers and distributors in the Middle East is socially embedded, which supports the arguments made by relational theorists (Macneil, 1983; Noordewier *et al.*, 1990; Granovetter, 1985; Dyer & Singh, 1998). Relational contracting proves to be of strategic importance in the Middle East. It is inaccurate to assume that trust (P6) fully takes the place of formal contracting (P3, P4, P5), but the research shows that the failure to build trust will lead to relationship termination. Cases witnessing high levels of dyadic risks are those witnessing low levels of trust and vice versa, which confirms that trust can be perceived as a way of countering opportunism. Moreover, a partially integrated model has been presented as a dominant DRM strategy in UAE and KSA, which shows that suppliers favour surviving alongside their distributors instead of terminating the existing relationships. This, however, must be based on the mutual development of trust since the dyadic cases explored that adopted a PIM have exhibited high trust levels. This confirms that the transactional and relational approaches can be explored in conjunction as a PIM dyadic risk mitigation strategy combines integration (TCE), outsource (AT), and collaboration (trust). This might justify why advocates of the agency theory are becoming more open

towards considering the role of trust in agency types of relationships (Fayezi *et al.*, 2012). Although the development of trust entails incurring non safeguarded investments, the return is translated into sustaining and reinforcing the dyadic relationship. Such return on investment is of strategic importance mainly for distributors in the Middle East, who pay the higher costs of relationship discontinuation. The supply network in the Middle East is structured by means of formalisation (P3) and centralisation (P4, P5), which conforms to the propositions of Choi and Hong (2002).

Failure to address dyadic risks can be viewed as failure to adapt to the evolution in the environment, as suggested by the evolutionary theory (Nelson and Winter, 1983). This will lead to further vulnerability across the supply chain (Svensson, 2000) as suppliers will lose their control over the value adding activities. A supplier who has already reacted to one of the DRM strategies proposed for the three contexts might thus be in a more resilient competitive position compared to another supplier who has not yet addressed such issues.

The cases explored show that the strategies adopted by distributors to mitigate dyadic risks do not differ between one country and another. Some strategies have been presented as more dominant in one country and less dominant in another, but this did not seem to affect the overall strategic direction of distributors in mitigating dyadic risks. Section 4.7 examines the similarities between the cases that adopted specialisation strategies to mitigate dependency risks and those that adopted diversification strategies respectively.

4.7 Dyadic Risks Mitigation: Distributors

P7: FMCG distributors in the Middle East mitigate dyadic risks through A-specialisation and B- diversification strategies

This section covers the evidence gathered regarding the specialisation and diversification strategies adopted by distributors in the Middle East.

4.7.1 Dyadic risk mitigation distributors: Specialisation strategies

As examined by the agency theory, distributors should be specialised in what they do to justify their role in an agency relationship. Without specialisation, the reasons that justify outsourcing the sales and distribution activities are no longer valid. Specialisation increases the dependency of a supplier on the distributor's services. Accordingly, the question that arises is not whether distributors should be more specialised, but about the type of specialisation perceived to be most effective to mitigate dyadic risks. Insights gathered show that distributors adopting specialisation strategies do not seek to introduce new capabilities to their model, but strengthen specific existing capabilities. The findings disclose four types of specialisation strategies:

- Specialisation in logistics and other services.
- Specialisation by channel.
- Specialisation by region.
- Specialisation by category.

Distributors mitigate dyadic risks resulting from their dependency on suppliers by positioning themselves as specialised service providers. They strive to split the sales and distribution chain into a set of services, as noted by a vice president interviewed.

“We look at the sales and distribution operation as a menu of services. The objective is to be specialised mainly in the activities that we know our suppliers are interested in outsourcing.” (Interview, Distributor KSA).

The cases explored show that some distributors aim to upgrade their logistical capabilities by establishing independent companies specialised in delivering logistical services.

“We established a company called ‘ABC’ that is specialised in providing logistical services, not only for our supplier but for other companies as well.” (Interview, Distributor KSA).

Similarities are found between distributors in Iraq, KSA and UAE, incurring heavy investments in logistical capabilities and upgrading their physical infrastructure (warehousing and delivery), or their systems and processes to mitigate dyadic risks.

When interviewed, these distributors revealed that they no longer refer to themselves as distributors, but rather as service providers. An interviewed CEO notes:

“Today I do not want to be called a distributor, distribution is part of what I do but I am also selling other services to my supplier and other suppliers.” (Interview, Distributor UAE).

Being positioned as service providers drives these distributors to seek different forms of collaboration with suppliers based on efficiency, cost competitiveness, and quality. This is not only confirmed by the insights collected during interviews, but also by the distributors’ communication messages on their websites. Below are some examples that are extracted from their websites.

“As an organisation, our strategic differentiation lies in our ability to work collaboratively with our partners for cost efficiencies, speed to market, and capitalizing on business opportunities. We are committed to the pursuit of excellence”. (Website, Distributor UAE).

“One of our core competences is the area of logistics. Our aim is to provide our customers with excellent service levels and short delivery response. Our commitment to ourselves and to our business partners is to provide optimal storage facilities, ensure the quality of our products, and manage a best in class operation.” (Website, Distributor UAE).

A general manager interviewed stressed the commitment of the company’s shareholders to investing in state of the art logistical capabilities.

“The warehouses that we are now building are fully automated following the latest logistics standards; they will allow us to provide excellent services at competitive costs” (Interview, Distributor UAE).

This is how a vice president interviewed describes a competitive distribution model in KSA:

“The right distribution model is not only about having a robust sales organisation, but the right equipment and processes with the right back office support like logistics and transport, and the right methodologies and science behind it... It is about balance between the back office and the front office functions to make sure that the sales teams are focused on the execution in the market ... I call this a ‘menu approach’ where our suppliers do not come to us because we are a good distribution company, but because we can provide them with all sorts of services required...” (Interview, Distributor KSA).

Distributors may also consider a joint venture with multinational service providers who wish to expand in the Middle East (Case 14). This will allow them to build on existing experience in the field and help them to access additional suppliers more quickly, notes the general manager of a reputable distribution company that signed a joint venture with a multinational logistics provider.

Investments made to convert into specialised service providers are not restricted to upgrading logistical capabilities, but also include other secondary services such as merchandizing and asset management services. Some distributors have introduced specialised services in merchandizing (Case 15) that are not exclusive to their suppliers. Others have established a dedicated asset management unit to manage the merchandizing equipment (such as freezers) deployed for their suppliers (Case 12).

“Over the past 20 years, our supplier dealt with one specialised company to manage its freezers in the market, but was not satisfied with the quality of its service. This is where we [the distributor] intervened and informed our supplier that we are ready to have a specialised asset management entity. We used this entity for other suppliers as well.” (Interview, Distributor KSA).

The cases explored illustrate how specialised distributors succeeded in attracting new suppliers. By being specialised, the interviewed distributors built their scale further, which allowed them to reduce their dependency on suppliers.

The market for service providers is expected to grow in the future, as confirmed by the suppliers and distributors interviewed. Since suppliers are not apprehensive about integrating the logistical capabilities, this is an important signal for distributors to invest more in logistics. A CEO of a distribution company in UAE notes:

“Many distributors in the Middle East will evolve to service providers: this is where they can add value and where suppliers cannot beat them in terms of costs and infrastructure. Specialisation gives us scale and focus; this is what suppliers want.” (Interview, Distributor UAE).

Channel specialisation has been positioned as the second type of specialisation strategy. Some distributors interviewed in KSA and UAE (Cases 9, 12, and 15) are aware that suppliers are requiring higher levels of expertise to manage the various channels in the market. As suppliers are more concerned with integrating key account management capabilities, the dependency on distributors to manage modern trade will thus be very low. This is true when distributors do not have the right capabilities to manage the modern trade channel. As seen earlier (PIM cases), some suppliers interviewed are confident about their distributor’s capabilities in managing the modern trade channel because their distributors have succeeded in building the required levels of expertise to manage modern trade customers. Thus, channel specialisation is not only restricted to the management of the modern trade channel, but can include building specialised capabilities in the execution functions that are mid to low management positions considered more labour intensive. The VIM cases considered integrating the execution functions, unlike the FOM and PIM cases. The market for outsourcing the sales execution functions still exist as most of the cases explored (11 cases) do not consider integrating these functions.

Distributors who succeeded in building competent execution capabilities may have an advantage in mitigating dyadic risks, as the level of specialisation they achieved will make suppliers reconsider before integrating these functions, highlights a regional sales director interviewed.

In addition to the hypermarket and supermarket trade channels, specialisation can also include the food service channel. A distributor interviewed established a specialised operation to manage the food service (Case 9). This is a major need for certain suppliers, as highlighted by the regional sales director of a supplier seeking access into the food service channel:

“We require an expert in managing specific channels which are considered small today, but have the potential to become bigger tomorrow.” (Interview, Supplier UAE).

A specialisation strategy in specific channels where suppliers have neither the know-how nor the scale to manage helps distributors mitigate dependency risks.

“The main advantage that we provide is our ability to have the right portfolio and the right infrastructure to be able to access this channel. The food service business in UAE is very promising and we need to capture its potential.” (Interview, Distributor UAE).

By investing in an infrastructure that can cater to the specific needs of the food service channel, distributors are able to attract several small suppliers, the combined size of which cannot be underestimated.

“The food service channel used to represent 3% of our [the distributor] sales 10 years ago. Today, it represents more than 20% of our sales; this is a step change for us.” (Interview, Distributor UAE).

Distributors also seek to build specialised capabilities to manage the convenience and direct sales delivery channels. There are 7,000 self-service stores and 18,000 grocery stores in KSA, as noted by a vice president interviewed.

“Suppliers will always need a specialised distributor who has the infrastructure and scale to reach these outlets. We need to be the distributor who has an efficient route to market to effectively cover the entire retail universe.” (Interview, Distributor KSA).

Building specialisation entails investments in the appropriate human and technical skills to achieve an efficient coverage. Some distributors have succeeded in playing this role in KSA (Cases 12 and 15), while others have not (Cases 13 and 14).

Another channel where distributors are building specialised capabilities is the school channel.

“We [the supplier] need to follow our consumer’s journey; our products have to be where our consumers are...” (Interview, Supplier UAE).

To meet this strategy’s requirements, some suppliers (Case 5) outsourced the management of the schools channel to a niche distributor specialised in reaching the school universe.

One conclusion drawn was that distributors who followed a channel specialisation strategy to mitigate dyadic risks succeeded in establishing a regional specialisation strategy. This is applicable to distributors mainly in KSA and Iraq.

Specialisation by region was emphasised during the interviews conducted in KSA and Iraq.

“In most of the countries in the region you have two dimensions; brand and channel; in KSA, you have the regional dimension” (Interview, Distributor KSA).

Distributors who built regional specialisation succeeded in turning the geographical complexity challenge in KSA into an opportunity by strengthening their physical presence in various regions (Cases 12 and 15). Establishing several regional branches enables distributors to shorten lead times and enhance customer satisfaction. Specialisation by region can also include assigning rural areas to sub distributors. Effectively allocating and utilising resources has direct implications for optimizing the cost to serve, as explained by a general manager interviewed. When the physical presence in a specific region becomes costly for a distributor, outsourcing the sales and distribution activities to a smaller sub distributor specialised in the region becomes a more feasible option.

Specialised regional distributors position themselves as experts in route to market design. Their objective is to effectively cover as many regions as possible by concentrating their resources in the main geographical regions and relying on specialised sub regional distributors in others. A business development director with regional experience in the Middle East notes:

“This practice is common in countries like Egypt, Turkey, and Iran, and will become more common in KSA in the near future” (Interview, Supplier KSA).

Distributors and suppliers are now collaborating (Cases 12 and 15) to purchase satellite images to assist in the reconfiguration of their route to markets.

“Building regional capabilities is a must. We are expected to be present in all the regions; this is our role as a distributor” (Interview, Distributor KSA).

If a distributor wishes to operate on a national level, he must prove his capability in effectively covering all the regions. Some suppliers who followed a vertically integrated model (Cases 5 and 13) decided to concentrate their operations in core regions and to outsource other regions to specialised regional distributors.

The portfolio specialisation strategy emerged from suppliers favouring operations with distributors that are specialised by category (food products, non-food products, chilled categories, ambient categories). Specialisation by category of products is more important in modern trade dominated markets like UAE, as noted by the CEO of a supplier interviewed.

Some distributors are specialised in freezer products, others in fresh products. It is very difficult for a supplier who does not have the scale to manage short shelf-life products that are sourced from Europe or USA for example. Some distributors, called niche or boutique distributors, are specialised in grouping different products from different suppliers in one sourcing destination, which helps them optimise shipping costs.

A distributor interviewed (Case 12) developed a specialised business unit, called Consumer Product Development unit, which consolidates the fragmented food portfolio. Prior to the creation of such a unit, these products were diluted in the business. Consolidation brought along the scale which allowed the distributor to invest in dedicated capabilities to drive the growth of the business unit as a whole.

“The creation of the Consumer Product Development division had a main contribution in attracting small scale suppliers like we did with ABCD and ABCE” (Vice president, Distributor KSA).

The cases explored show that suppliers do not always favour working with big distributors. Some prefer to operate with small boutique distributors that are specialised by category. Suppliers are showing more willingness to work with these types of distributors (Cases 6, 8, 10, and 11).

“We want to have two distributors in UAE; one specialised in the destination categories and the other specialised in the impulse categories and will be distributing our impulse product portfolio.” (Interview, Supplier UAE).

“After acquiring a brand, we [the supplier] required that our distributors be expert in the snacking category, now that we have a full snacking portfolio.” (Interview, Supplier UAE).

Evidence gathered from the four specialisation strategies confirms that FMCG distributors in the Middle East mitigate dyadic risks by developing specialised capabilities. Channel specialisation is viewed as the strategy that plays the biggest role in developing trust between FMCG suppliers and distributors. This is confirmed by the cross analysis conducted between the cases that adopted specialisation strategies and the cases that witnessed high levels of trust. The cross analysis shows that four of the five cases that adopted channel specialisation strategies observed an evolution in their relationships.

This analysis confirms that the four examined specialisation strategies contribute to mitigating dyadic risks in general, but the channel specialisation strategy is the one that is mostly valued by suppliers. Distributors may build specialisation through service management, regional management, and portfolio management to attract new suppliers but if they fail to build specialised capabilities by channel, it will be difficult to retain their existing suppliers. By upgrading their channel management capabilities, distributors can enhance the levels of trust and consequently mitigate dyadic risks. This finding also confirms that the relationship perspective complements the DRM strategies adopted by distributors to mitigate dyadic risks. The investment in specialised capabilities drives distributors to retain existing suppliers and attract new ones.

4.7.2 Dyadic risk mitigation distributors: diversification strategies

Evidence gathered from distributors shows that diversification strategies also play a role in mitigating dyadic risk. Three types of diversification strategies have been identified following the cases explored:

- Diversification through geographical expansion
- Diversification through backward integration into manufacturing
- Diversification through forward integration into retail

The diversification through geographical expansion is presented as a major dyadic risk mitigation strategy. The cases explored, as well as other examples shared during interviews, show that a distributor who concentrates all his operations in one market is bound to face higher dyadic risks than another who is present in several markets. Over the years, distributors were able to accumulate specific know-how in distribution which they can invest in countries where the distribution business still has room to grow. A general manager interviewed notes:

“It would be a loss if we do not invest our know-how in other countries” (Interview, Distributor UAE).

Rather than rely on a business model that depends on one or a few suppliers in one country, distributors can diversify into other countries, enabling them to grow their scale and spread their risks (Cases 1, 2, 9, 12, and 15).

Data collected gives indications about the profile of the geographical destinations perceived attractive to the distributors interviewed. Distributors avoid expanding into modern trade countries where they cannot play a holistic role in the supply chain.

“In a modern trade country, we are not able to provide much added value as our competitive advantage is limited to logistics but in traditional trade countries this is where our services are needed the most.” (Interview, Distributor Iraq).

Most distributors interviewed agree that the costs of entering modern trade countries are very high. Substantial investments are needed in order to differentiate themselves from other historically established distributors. Moreover, they believe their role would be limited to providing logistical services as the trend shows that suppliers are moving further towards controlling the relationship with the end customer. On the other hand, interviews conducted with suppliers in traditional trade countries confirm that distributors will continue to play an important holistic role in the future. Outsourcing the sales and distribution activities to a distributor willing to invest to reach a fragmented traditional trade universe is the typical model considered by the suppliers interviewed (FOM cases). For this reason, traditional trade countries are more attractive for distributors willing to diversify into new markets to mitigate dyadic risks. The cases explored show that the distributors who succeeded in expanding into new markets were those who maintained successful relationships with their suppliers in the markets where they originally operate.

“If we want to enter Syria, it is better to go with someone we know who has strong financial credentials than to enter with someone we do not know.” (Interview, Supplier UAE).

The distributors that were able to geographically expand their operation show how a successful relationship with a supplier in one market can help a distributor diversify into new markets. The second type of diversification strategy involves backward integration. Investment in manufacturing capabilities appeared to be a strategic direction considered by distributors in the Middle East to mitigate dyadic risks. A CEO interviewed notes,

“The only way to eliminate our dependency on suppliers is by becoming a supplier ourselves.” (Interview, Distributor UAE).

Distributors considering diversification into manufacturing are split into two categories. The first category includes distributors who established their own private label brand without relying on their relationships with their suppliers (Cases 1, 2, 7, 8, 11, and 13). A distributor who significantly depended on a supplier has lost more than 70% of its businesses in one day (Case 13). The concerned distributor was able to absorb this loss by diversifying into manufacturing and creating his own private label brand. Although the creation of a brand is risky, the rewards can outweigh the costs if distributors succeed in such diversifications, notes a CEO interviewed.

“We lost the distribution of these brands in UAE, but the impact was very minimal because we were able to compensate part of the loss with our own private label brands” (Interview, Distributor UAE).

Evolving from playing a distributor role to a supplier role helped distributors export to new markets, thus mitigating dyadic risks by finding an alternative business that can be as big as their original business, if not bigger.

The second category includes distributors who built on their relationships with suppliers to establish joint alliances to locally manufacture their suppliers’ brands.

The growing importance of the Middle Eastern countries led suppliers to consider establishing factories mainly in KSA and UAE. Distributors build on their access to capital and position themselves as potential partners in manufacturing. Suppliers and distributors thus join forces by venturing into manufacturing together (Cases 15 and 13). A joint venture gives distributors long term safeguards that help mitigate dyadic risks, while offering suppliers full management control and partnership in sharing the risks involved. This win-win situation shows how distributors can evolve their relationships with suppliers from a modest supplier distributor relationship to a strategic alliance relationship.

“The investment capabilities of the distributor are very high; they are not expected to have the know-how as we have full management control in the joint venture, they just provide the investment in CAPEX, and we manage.” (Interview, Supplier KSA).

The third category groups distributors who diversified into retail. Some distributors have already adapted this strategy (Cases 1, 2, 7, and 12). Some have invested in hypermarket and supermarket retail store formats (Cases 7 and 2), while others bought the franchise of international restaurant chains (Case 12) or the franchise of fashion brands (Case 1).

The interviewees shared other examples of distributors investing in downstream strategies. One distributor in Oman owns a chain of convenience stores, and another in Jordan has diversified into home appliances. Forward integration thus presents a viable option for distributors to mitigate dyadic risks. A CEO notes:

“With the on-going increase in retail power, venturing into retail is not a bad option.” (Interview, Distributor UAE).

It is important to note that the three diversification strategies explored by the research are those that can be associated with the dyadic relationship in one way or another. Evidence gathered shows that distributors who used their relationships with suppliers to diversify into new markets or new models (such as manufacturing or retail) have succeeded in mitigating dyadic risks while evolving the form of their relationships with suppliers, as shown in Table 4.9.

Diversification Strategies	Dyadic Cases	Relationship Evolution	
		From: Before Diversification	To: After Diversification
Geographical Expansion	1-Case 15 2-Case 4	Distributor in one market	Regional Distributor
Manufacturing (JV)	1-Case 15 2-Case 14	Supplier-Distributor Relationship	Strategic Alliance

Table 4.9. Diversification Strategies and Relationship Evolution

The evolutionary theory presents a relevant theoretical foundation to understand the evolution of the supplier distributor relationship in the Middle East. The cases analysed show that distributors use diversification strategies, both internal and external to the dyad, to mitigate dyadic risks. Those who relied on their existing relationships with their suppliers succeeded in evolving the relationship to new levels, and others who diversified independently of suppliers proved to have taken the right strategic direction in critical times.

“Suppliers are unpredictable; they can come to us at any point in time, thank us for doing business together, and leave, like what happened with us with “YZA”. Because we were well prepared with our manufacturing businesses, the impact was minimal.” (Interview, Distributor UAE).

Interviewed experts share the same point of view and confirm that distributors with the necessary financial means should explore diversification strategies with or without their suppliers to secure their continuity and mitigate dyadic risks.

P7-A is confirmed by six cases that adopted logistics and other service specialisation strategies, five cases that chose channel specialisation strategies, 12 cases that chose regional specialisations, and five cases that focused on category specialisation strategies. P7-B is confirmed by five geographical diversification cases, eight of which moved into manufacturing and four into retail. Iraq is presented as the main destination targeted by distributors who adopted a geographical expansion diversification strategy (three out of five diversification cases). On the other hand, KSA and UAE are the main destinations for distributors who explored diversification strategies into manufacturing with their suppliers.

Due to the unpredictability of suppliers, the cases explored confirm that long-term oriented distributors tend to adopt diversification strategies that are internal to the relationship, and others that are external to the relationship. The research confirms that specialisation and diversification both play an important role in mitigating dyadic risks. P7 also confirms that the evolutionary theory is an adequate theoretical avenue to understand the behaviour of distributors regarding dyadic risks mitigation. The findings

confirm that distributors tend to evolve their model in response to the opportunities that are brought by the external environment and the risks arising from their dependency on suppliers.

Unlike suppliers who can diversify their risks across many brands and multiple countries, the agency theory assumes that agents or distributors are assumed to be risk averse due to their limited ability to diversify their risks (Eisenhardt, 1989; Wiseman and Gomez-Mejia, 1998). Strategies adopted by distributors in the Middle East (specialisation and diversification) exhibit a risk neutral behaviour. Distributors who increase investments in specialised capabilities with the expectations of retaining or attracting suppliers are taking risky decisions. Those who decide to access new markets or invest in manufacturing capabilities expecting to spread their risks are also taking risky decisions. The association between taking risks (investments in specialisation and diversification) and the mitigation of dyadic risks shows that distributors in the Middle East may have no other alternative except to remain risk neutral. Risk averse distributors are those who resist undertaking long term investments and fail to evolve their models. As presented by the agency theory, such an opportunistic behaviour is associated with their position as they do not exhibit any efforts to reduce or strengthen their dependencies on principals. Distributors who reveal outcomes and share performance based information may lose their autonomy and reveal their weaknesses (Fama and Jensen, 1983; Abrahamson and Park, 1994). Hiding information as shown by the research decreases the level of trust and puts the relationship at risk. According to Hardin (2002), trusting a person entails demonstrating trustworthy behaviour. According to this research, such behaviour entails the unconditional sharing of information as well as investing in the capabilities that matter for suppliers without expecting anything in return. The research shows that such behaviour pays off as it leads to increasing trust levels in the future. Although the research demonstrates that the behaviour of the agent/distributor, as described by the TCE and agency theories, is applicable to distributors in the Middle East (see dyadic risks affecting suppliers, P1); tolerating such behaviour is fatal for distributors in the Middle East.

The research also shows that resilient distributors in the Middle East are those who give importance to assets of high specificity for suppliers (such as key account management

and multi-channel expertise). They also specialise in those assets that the suppliers are not willing to integrate (logistics). The specificity level of brand assets cannot be the same between traditional and modern trade countries; in traditional trade countries where suppliers are fully convinced of a full outsource model with certain control (P3) and where dyadic risks affecting distributors are low (P2), brand assets should be of high specificity for distributors. In other words, distributors in traditional trade countries should dedicate resources to strengthen the level of the supplier's dependency. In modern trade countries, on the other hand, where suppliers are considering other alternative governance structures (P4,P4) and where their behaviour is unexpected (P2), treating brands as assets of high specificity may not be optimal for distributors. Supplier brands must remain important, but distributors should also focus on more sustainable assets such as logistics and private labels. It should be noted that asset specificity requires significant levels of specialisation (Williamson, 1985).

The agency and TCE theories both focus on the behaviour of suppliers and pay little attention to the expected behaviour of distributors. The novelty brought by this research is its ability to show how distributors react to potential risks associated with their dependency on suppliers. The reaction of distributors is, however, explained by adopting the evolutionary approach, not the transactional approach. As shown in the literature review chapter, specialisation or disintegration strategies have been attributed to various evolutionary mechanisms.

The use of an evolutionary lens shows that the suppliers and distributors adopt similar strategies to mitigate dyadic risks. While the transactional approach advocates vertical integration, it has been shown in P5 that cases of disintegration and moves to further specialisation strategies have been identified.

As recommended by the evolutionary approach and confirmed by one of the interviewees, '*menu of services*' distributors need to disintegrate their models (Agarwal, 1997) and move from a generalist model (a distributor who does everything), to a specialised model (a distributor specialised in a few things). This helps distributors in the Middle East build distinctive capabilities and scale up their business (Teece *et al.*, 1997; Klepper, 1997).

If specialisation/disintegration is one of the options available for suppliers, evidence gathered in P7 shows that such strategies are transformative for distributors, especially in UAE and KSA. The research finds that an evolution in the environment, such as channel evolutions, drives distributors to seek further specialisation, as noted by Teece (2011). A convergence is found between the transformative behaviour of distributors in reaction to dyadic risks and the concept of routine defined by the evolutionary theory. Routine is defined by the evolutionary theorists as a recurrent pattern of behaviour (Nelson and Winter, 1982). The research shows that distributors who maintain their routines are those who take their relationships with their suppliers for granted and do not see the need to change. The model proposed by Feldman and Pentland (2005) explains the reaction of distributors to dyadic risks. A causal relationship is drawn by Feldman and Pentland (2005) between how things are done and how things should be done. The performative aspect relates to distributors who seemed neutral to dyadic risks and have not altered their behavioural pattern. The ostensive aspect, on the other hand, illustrates the cases of distributors who adopted specialisation and diversification strategies to mitigate dyadic risks. The latter cases of distributors have invested in the dyad and outside it by disintegrating their capabilities and being specialised in each disintegrated entity, while accessing new capabilities. The multiple cases explored show that distributors who fail to adopt such strategies are more vulnerable to dyadic risks. The cases also show that distributors in the Middle East should leverage their access to capital and increase their investments. No dyadic cases have been explored of distributors whose investments in building their capabilities did not bring benefits in the long term.

It can be concluded that TCE and the agency theories describe what distributors in the Middle East are (P1), but trust and the evolutionary theories describe what the distributors in the Middle East should be (P6 and P7).

Figure 4.3 shows that a variety of strategies to mitigate dyadic risks are adopted by FMCG suppliers and distributors in the Middle East. Network risks are not only caused by the inter-organisational relationship of a focal company with its upstream partners (Choi and Krause, 2006) but by its relationship with its downstream partners, as

demonstrated by this research. By exploring the DRM strategies adopted by both members of the dyad, this research has treated both suppliers and distributors as focal firms. For suppliers, the research has looked into the dyadic risks caused by the downstream relationship, and for distributors the research has explored the dyadic risks caused by the upstream relationship.

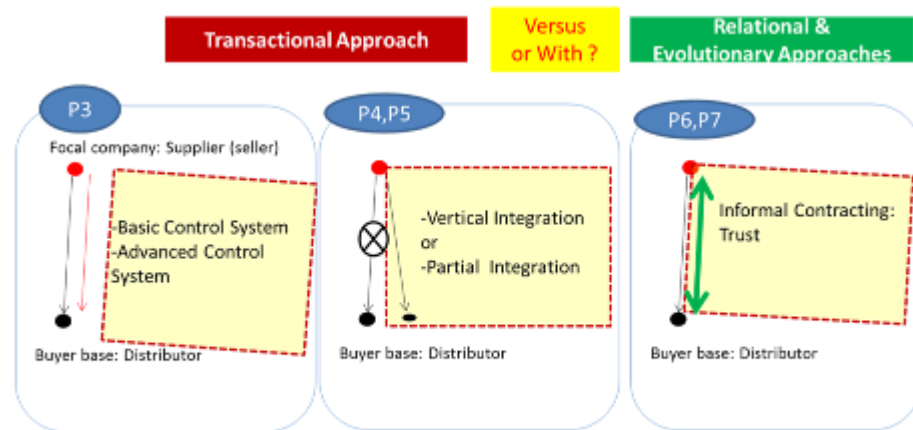


Figure 4.3. Dyadic Risk Mitigation Strategies – Dyadic Network

Evidence gathered does not support one approach independently of the other. The findings do not conform with the transactional approach, which prevails over the relational and evolutionary approaches and vice versa. On the other hand, they show that both approaches complement each other to understand the mitigation of the dyadic risks in the Middle East. The theoretical mix that combines the transactional, relational, and evolutionary approaches appears to prevail. Although higher levels of complexities are associated with networks composed of many members rather than smaller networks (Choi and Krause, 2006), the research shows that the level of interdependency between two dyadic members might cause serious disruption to the network. It may be less complex to develop trust between two dyadic members than to develop it between many members. Trust plays an important role, not only because of the complexity level of the network, but also because of the social embeddedness of the network (Middle East). Different results may have been obtained if the same network had been explored in different contexts with different cultures (Brown Johnson and Droege, 2004). As multiple dyadic cases have been identified to mitigate dyadic risks, the findings of the research also confirm the assumptions of evolutionary theorists who consider that governance structures are dynamic and adapt to changes in the environment. The

adaptation process includes assessing and reviewing current routines (Feldman & Pentland, 2005) and considering transformative actions.

It can be concluded that the agency and TCE theories are able to explain how suppliers and distributors are most likely to act in a dyadic relationship. The relational theory, on the other hand, demonstrates that the same reasons that may drive dyadic members to act opportunistically may drive them to look after each other's benefits. The evolutionary theory proves that multiple strategies can be adopted to mitigate dyadic risks. These strategies vary with the evolution in the environment. A partial integrated model is viewed as a model that can host the transactional, relational, and evolutionary approaches.

The findings of the 15 multiple dyadic cases explored in this research have been presented in Chapter 4. As predicted by the research, the chapter has clarified how suppliers and distributors in the Middle East do not adopt similar strategies to mitigate dyadic risks. Major similarities have been found between strategies adopted by dyadic members in Iraq, showing that, in a static traditional trade context, suppliers tend to fully outsource the downstream sales and distribution activities. In such a context, the deployment of a control system (P3) is presented as the optimal DRM strategy. In evolutionary contexts like KSA and UAE, on the other hand, suppliers and distributors select different DRM strategies, including partial (P4) and full (P5) integration of their sales and distribution activities. The chapter also showed that a major difference between partial and full integration cases is associated with the scale of the supplier and the level of trust achieved with the distributor. The development of trust has been presented as a major dyadic risk mitigation strategy across the three contexts. In evolutionary contexts, where dyadic risks reached higher intensity levels, trust plays an eminent role. The findings of Chapter 4 confirm that the transactional perspective cannot independently explain dyadic risks in the Middle East. Dyadic cases witnessing high levels of trust are more resilient to dyadic risks than those witnessing trust issues. Moreover, some dyadic cases confirmed that the failure to restore the levels of trust in the Middle East will lead to relationship termination. The contribution of this research to both theory and practice is presented in Chapter 5. The chapter also concludes with

the limitations of the research and some propositions are highlighted for future research avenues.

The seven propositions helped address the questions raised by the research, added to the existing body of knowledge and contributed to bridging the gaps identified earlier:

- ✓ Gap: The literature is rich in understanding supply chain risks but there is a scarcity of research exploring the sources and consequences of dyadic risks in a controversial and diversified business context like the Middle East.
- Finding: The current research explores dyadic risks in three diversified business contexts (Iraq, UAE, and KSA).

- ✓ Gap: No academic research has been found in the literature addressing the issue of whether dyadic risks should be given strategic importance for FMCG companies (supplier and distributors) in the Middle East, or whether it is enough to merely acknowledge their existence.
- Finding: The current research shows that dyadic risks should be given a strategic importance for FMCG suppliers and distributors in the Middle East, mainly those in UAE and KSA.

- ✓ Gap: Supply chain risks have been explored in single or homogeneous contexts, but there is a scarcity of studies addressing these risks in evolutionary environments.
- Finding: The current research shows that dyadic risks are dynamic and vary with the variation in the context.

- ✓ Gap: The literature that used the TCE and agency theories to understand supply chain dyadic risks focused on one member of the dyad (the supplier or principal in most of the cases). Examining the implications of dyadic risks on both members of the dyad helps in understanding how dyadic members can collaborate together to mitigate them.
- Finding: The current research shows that dyadic risks affect suppliers as much as they affect distributors. Dyadic risks may, however, have greater implications

for distributors, as their network is larger than that of suppliers. Moreover, concrete cases have been explored showing relationship termination. A distributor losing a supplier who represents 30% of his business means that he is losing 30% of his turnover while his costs remain the same, which brings about serious implications affecting his survival.

- ✓ Gap: Governance structures are dynamic and evolve with the evolution in the institutional environment: the transactional approach considers that governance structures are static and do not consider learning and adaptation processes in changing environments.
- Finding: The research shows that the reaction of suppliers to dyadic risks varies with the variation in the context. Various dyadic cases have been explored in Iraq, UAE, and KSA, showing a diversity of DRM strategies from basic and advanced control systems (P3) to partial control systems (PIM, P4) and full control systems (VIM, P5).
- ✓ Gap: The literature emphasises hierarchal and market structures; there is little understanding of hybrid structures, specifically in the FMCG industry: hybrid governance structures (such as partial integration) can be presented as alternative forms of governance structure and can provide good examples of inter-firm collaboration.
- Finding: A hybrid governance structure (PIM) that combines the transactional and the relational approaches has been positioned as a dominant DRM strategy in UAE and KSA. Some cases have already adopted such an approach and others are willing to adopt it in the near future. A PIM dyadic risk mitigation strategy also demonstrates that the trend in the Middle East is moving towards further collaboration between supply chain members following the trends in developed markets.
- ✓ Gap: The transactional approach provides strong evidence on the costs of market transactions, but many hidden costs can also be associated with hierarchal transactions. These hidden costs may affect make or buy decisions, favouring markets or other forms of governance structure over hierarchal forms.

- Finding: The cases explored show that suppliers only tend to consider a VIM dyadic risk strategy when they can afford the costs of integration. The hidden costs of integration are associated with market, financial (credit, inflation risks), and legal risks (compliance). These costs have been presented as significant obstacles that drive suppliers away from full integration.

- ✓ Gap: No evidence has been found supporting the use of TCE and agency theories to understand dyadic risk mitigation strategies in a dynamic context like the Middle East: this exploration may provide evidence of how the industry is evolving and what form of governance structure will dominate the future of supplier distributor relationships in the Middle East.

- Finding: The research provides clear answers related to the dominant DRM strategies in traditional trade markets in the Middle East like Iraq (CS, P3) and in modern trade markets like KSA and UAE (PIM,VIM, P4, and P5). Suppliers adopting these strategies are resilient to dyadic risks and those who are not may be more vulnerable to dyadic risks.

- ✓ Gap: TCE and agency theories give little importance to the role of trust in social exchange.

- Finding: Trust is positioned as a response to dyadic risks, the development of which can be viewed as a dyadic risk mitigation strategy that complements formal contracting. Trust plays a strategic role in dyadic FMCG relationships in the Middle East.

- ✓ Gap: The transactional approach focuses on the DRM strategy of one member of the dyad (supplier or principal); little attention is paid to the reaction of the other dyadic member (distributors or agent).

- Finding: Only one study has been found in the literature (published in 1979) that provides basic apprehensions of distributors in the Middle East. The research explores the reaction of distributors to dyadic risks and shows that distributors adopt various specialisation and diversification strategies to mitigate them. The strategies adopted by distributors present a transformation of distributors'

models from generalist models (1979) to specialized and diversified models (2014).

A table summarising the evidence gathered for each of the proposition is presented in Appendix V.

Chapter 5. Conclusion

This chapter discusses the conclusion of the research and is split into five sections. A summary of the research findings is presented in Section 5.1 before discussing the findings from the angle of the literature in Section 5.2. Section 5.3 covers the contribution of the research to theory and practice. The chapter concludes with the generalisability of the research (Section 5.4), its limitation and a recommendation on future research (Section 5.5).

5.1 Summary of Research Findings

Table 5.1 illustrates the key issues addressed by the research.

Research questions	Propositions
How do FMCG suppliers and distributors in the Middle East perceive dyadic risks affecting their relationships?	P1,P2
How are FMCG suppliers in the Middle East mitigating dyadic risks?	P3,P4,P5
What role does trust play in dyadic relationships in the Middle East?	P6
How are FMCG distributors in the Middle East mitigating dyadic risks?	P7

Table 5.1. Review of Research Questions

Fifteen multiple cases were analysed in three countries of the Middle East to address the above questions, each of which is summarised in this section. Data was gathered from 30 in depth interviews conducted with senior professionals from multinational FMCG suppliers and distributors.

5.1.1 Notion of dyadic risks in the Middle East

The cases analysed confirm that suppliers and distributors are affected by dyadic risks. The findings reveal that the probability of these risks occurring differs based on the sales and distribution model adopted by suppliers. FMCG suppliers who are fully outsourcing their sales and distribution activities are negatively affected by dyadic risks as suggested by the 1st proposition raised by this research. The research shows that cases fully outsourcing the sales and distribution activities are mostly affected by dyadic risks (Cases 7, 8, 10, and 11). On the other hand, the cases that are vertically integrating the sales and distribution activities (Cases 4, 5, 13, and 14) are not affected by dyadic risks. The exceptions noted were two fully outsourced cases in Iraq (Cases 1 and 2), and the

partially integrated cases in UAE and KSA (Cases 9, 12, and 15). The multiple case analysis confirms that suppliers in Iraq who are fully outsourcing their sales and distribution activities to distributors are not significantly affected by dyadic risks as is the case with suppliers adopting the same model in UAE and KSA. Similarly, suppliers who are partially integrating the sales and distribution activities are not significantly affected by dyadic risks as is the case with suppliers who are fully outsourcing the sales and distribution activities in the said countries.

The research thus confirms that suppliers in the Middle East who are outsourcing their sales and distribution activities are negatively affected by dyadic risks. The severity of the implications of these risks and their probability of occurrence diverge with the variation in the contexts. Suppliers in Iraq are not as concerned with these risks as are suppliers in UAE and KSA. This shows that the more evolved the trade, the less effective is the decision to outsource the sales and distribution activities.

Distributors are also affected by dyadic risks resulting from their dependency on suppliers. The two most serious dyadic risks affecting distributors are the loss of legal protection (9 applicable cases), and the erosion of their market know-how (8 applicable cases).

Important advantages that distributors had in the past no longer exist today. Physical proximity to markets and the hiring of local experts led suppliers to become less dependent on distributors. The main power that ties suppliers to distributors is their scale advantage and their ability to absorb risks. Despite distributors losing a big share of their knowledge power, they can still build on their financial power. Distributors are also affected by the unpredictable behaviour of suppliers. Five explored cases show that at any point in time, a supplier can terminate the relationship with the distributor. This is an important indication for distributors to avoid taking their relationships with suppliers for granted.

Unlike the dyadic risks affecting suppliers, dyadic risks affecting distributors are neither context nor model specific. Distributors across the three countries feel insecure, even

the ones who presume they have solid relationships with suppliers do not neglect the possibility of relationship termination.

FMCG distributors in the Middle East are thus negatively affected by dyadic risks (P2). These risks make them live in a world of uncertainty that drives them to act opportunistically, making the most out of today because no one knows what tomorrow holds.

The notion of dyadic risks in the Middle East is perceived differently between suppliers and distributors. For suppliers, dyadic risks are caused by their inability to control outcome and behaviour based performance, which limits their ability to improve and optimise their performance. Dyadic risks for distributors are caused by their dependency on suppliers, which leads them to operate under constantly uncertain conditions.

5.1.2 Dyadic risk mitigation strategies in the Middle East

The cases explored show that most suppliers and distributors interviewed are aware of the dyadic risks affecting their businesses. Some have reacted to these risks, while others are still considering the notion.

This research confirms that there are multiple DRM strategies to mitigate dyadic risks in the Middle East (see Table 5.2).

		Dyadic Cases			Total
		Iraq	KSA	UAE	
FOM	BCS	3		2	5
	ACS		1	2	3
PIM			2	1	3
VIM			2	2	4

FOM: Full Outsource Model
PIM: Partial Integrated Model
VIM: Vertical Integrated Model
BSC: Basic Control System
ASC: Advanced Control System

Table 5.2. Dominant Dyadic Risk Mitigation Strategies

The table shows that suppliers in Iraq adopt a basic control system based on fixed price contracting to mitigate dyadic risks. This strategy responds to the limited implications of dyadic risks in Iraq. In KSA and UAE, some suppliers are still adopting a basic control system (2 cases), while others have moved to advanced control systems (3 cases). Neither of the control systems is sufficient to mitigate dyadic risks in mixed channel markets like KSA, and modern trade markets like UAE. Although an ACS is preferable to a BSC since it is based on cost plus contracting, suppliers adopting either system do not see the benefits of outsourcing the management of key accounts to distributors. For this purpose, concerned suppliers still perceive themselves as negatively affected by dyadic risks.

The table also shows that three suppliers have adopted a PIM to mitigate dyadic risks, and four others opted for a VIM. These findings can be misleading as they might indicate that a PIM is not an effective model to mitigate dyadic risks. Although Table 5.2 shows only three cases adopting a PIM, data gathered show that three other cases are willing to consider such a model in the future (Cases 6, 7, 8 in UAE), as illustrated in Table 5.3.

Dyadic Cases	Partial Integrated Model	
	Actual deployment	Consider to deploy
Case 6	0	1
Case 7	0	1
Case 8	0	1
Case 9	1	0
Case 12	1	0
Case 15	1	0
Total	3	3
Grand Total	6	

Table 5.3. Partial Integrated Model- Similarities between Cases

“The direct control of key account negotiation is in our mid-term plan, which we [the supplier] will activate after we finish consolidating our distributors in UAE.” (Interview, Supplier UAE).

This finding shows that the partial integration of the sales and distribution activities may be considered as the dominant DRM strategy for suppliers in UAE and KSA. This indicates that suppliers are oriented to move towards further collaboration with

distributors, which will give them better control over dyadic risks regarding monitoring the outcome and behaviour based performance in modern trade. It also does not obligate them to absorb the financial risks associated with full integration (credit risks, complexity risks), thus maintaining a low risk model by outsourcing activities not deemed fundamental (invoicing, execution functions, logistics), and internalizing the functions that are (market management, key account management, capabilities development, systems and processes). By partially integrating these functions, suppliers anticipate reducing the probability of dyadic risks occurring. On the other hand, suppliers adopting a VIM perceive the value adding functions differently, and prefer integrating the sales execution and invoicing functions (4 cases). Thus, the DRM strategy adopted by these suppliers is based on eliminating dyadic risks, not reducing them.

To conclude, a DRM strategy based on deploying a control system (P3) seems more applicable in countries where suppliers are not significantly affected by dyadic risks (Iraq). On the other hand, a DRM strategy based on partially integrating the sales and distribution activities (P4) is positioned as the dominant strategy in mixed and modern trade markets (KSA and UAE). Decisions in vertically integrated models depend on the supplier's scale and their relationship with distributors. Suppliers who have the required critical scale, and have endured negative dyadic risks with distributors, seem more oriented to adopt VIM (P5) strategies in UAE and KSA.

Distributors are affected by the DRM strategies adopted by suppliers. A distributor considers a PIM as a potential threat to a reduction in his role (the part related to managing the key account), and a VIM as a threat to the entire loss of his role (Cases 5 and 13). The DRM strategies adopted by distributors in the Middle East are based on building specialised capabilities while diversifying into new businesses (P7). Specialisation assists distributors in protecting their roles in terms of capabilities and cost competitiveness. The cases explored show that not all specialisation strategies adopted by distributors have the same impact on mitigating dyadic risks. The strategies that have greater positive impact on the dyadic relationship are those based on building specialised capabilities by channel. The adoption of such strategies appears to positively impact on the level of trust between suppliers and distributors. Distributors also

consider diversification strategies by either building on their relationships with their suppliers (geographical expansion and manufacturing) and/or by considering step changing investments outside the relationship (own brand and retail). Specialisation and diversification strategies prove to be efficient for distributors. Those who failed to retain suppliers that once represented a big share of their turnover were able to reduce their losses through specialisation or diversification strategies.

5.1.3 Role of trust

The cases explored confirm that trust plays a pre-eminent role in the Middle East, and is positioned as an essential DRM strategy. Fourteen of the 15 cases explored show that trust can play three different roles in the Middle East:

- Cases where lack of trust led to relationship failure: three cases
- Cases where trust led to relationship restoration: six cases
- Cases where trust led to relationship evolution: four cases

The three roles show that DRM strategies in the Middle East from both sides of the dyad are not comprehensive unless they take account of the role of trust in building relationships. Trust may drive the relationship backward or forward Relationships based on trust appear to be more resilient than others as they drive suppliers away from vertically integrated options (without distributors) to partially integrated options (with their distributors). As suppliers are more oriented towards partially integrated models, trust has been positioned as a prerequisite for the success of such a model.

“The lack of trust between a supplier and a distributor in a partially integrated model is similar to a married couple living in the same house but with no communication.”
(Interview, Supplier KSA).

Three of the four vertically integrated cases demonstrate that the lack of trust leads suppliers to consider DRM strategies without distributors. The decision of suppliers in UAE and KSA to move from FOM to PIM is based on the trust development actions taken by distributors. This is why a similarity among these cases (6 cases) is associated with the notification period given by suppliers to distributors to reinforce the levels of trust through concrete actions.

Trust is undoubtedly a strategic driver of supplier distributor relationships in the Middle East. The cases explored confirm that contract failure is due to a lack of trust and contract success is an outcome of high levels of trust.

5.2 Research Gaps and Findings

The research relied on the agency and TCE theories to understand dyadic risks in the Middle East. Following the gaps presented in the literature, the research argues that the transactional approach may not give a complete explanation of DRM strategies in the Middle East, suggesting complementing it with relational and evolutionary approaches.

5.2.1 Dyadic risks and supply chain

The findings of this research show that the transactional approach (TCE and AT) can help explain the nature of dyadic risks in the Middle East. Dyadic risks affecting suppliers are based on the assumptions raised by the TCE and agency theories (opportunism, information asymmetry). The propositions raised by the TCE and agency theories provide a good understanding of the dyadic risks affecting suppliers and distributors. The themes derived from the research, and those that emerged from the interviews conducted, provided a good understanding of the issues affecting suppliers and distributors in the Middle East. This has been confirmed by analysing the similarities and differences between the different cases.

TCE and agency theories accordingly provide a comprehensive base to understand dyadic risks but the cases analysed show that opportunistic behaviour is not exclusive to one member of the dyad (distributor) but can apply to both members. As shown by five dyadic cases, a supplier may decide to randomly review his model and internalise certain or all of the sales and distribution activities. The reasons behind such a behaviour may either be internal to the dyad (lack of trust: Cases 4, 13, and 14) or external (strategic direction: Case 5). In either case, such behaviour puts the distributor in a world of uncertainty and drives him to act opportunistically. This resulting behaviour may accordingly be either an outcome of the potential opportunistic behaviour of the supplier, or embedded in his nature as a distributor.

By exploring the risks affecting both members of the dyad (P1 and P2), the research succeeded in exploring the issues from a supply chain point of view. Had the research only explored risks affecting one dyadic member, it would have been limited in terms of knowledge and would have failed to reflect a supply chain orientation (Juttner, 2005). The research supports the transactional approach in explaining the nature of dyadic risks in the Middle East, focusing on the cause and effect relationship between the behaviour of a member in the supply chain and the consequent reaction of the other. The research focuses on such a relationship being deemed critical, not only for understanding dyadic risks, but also for exploring the DRM strategies adopted by each dyadic member.

5.2.2 Dyadic risk mitigation strategies: the mix prevails

The transactional approach alone is not sufficient to explain the DRM strategies used in the Middle East. With each proposition raised by the transactional approach, a cause and effect relationship that takes into account both the relational and the evolutionary approach should also be considered.

The transactional approach does not account for the impact of changes in the environment on governance structure. This research shows that suppliers in Iraq mitigate dyadic risks by adopting a control system, not the case in either UAE or KSA. Suppliers adapt their DRM strategy based on changes in the environment, or might even adopt different DRM strategies in the same environment. Choosing to explore several cases in three different contexts reveals that suppliers evolve their model based on the evolution in the context as well as the learning they accumulate from more experienced suppliers. Some suppliers adopted vertically integrated models because of the perceived benefits these models have brought to others (Case 14).

“If you hold an interview with X [the supplier of Case 13 who adopted a VIM], go and tell them that we [the supplier of Case 14] are encouraged by what they achieved. I am sure that other suppliers will be encouraged as well; it is like a domino effect.” (Interview, Supplier KSA).

Asking suppliers questions like what best describes a competitive sales and distribution model in their countries and how they see the evolution of their model led to the

conclusion that a partially integrated model is the dominant model in KSA and UAE. Although PIMs and VIMs are based on integrating assets of high specificity (as suggested by the TCE), the research shows that assets of low specificity today may be of high specificity in the future, depending on the supplier's scale and evolution in the environment. Key account management functions are not of high specificity in Iraq, for example, but are of high specificity for some suppliers and of low specificity for others in countries like UAE and KSA. Suppliers who are considering moving to a PIM anticipate that key account management assets will be of high specificity for them in the future, and accordingly their integration decision will assist in mitigating dyadic risks and adapting to channel evolution.

The dominant DRM strategy in KSA and UAE is a PIM, which consolidates three perspectives:

- Transactional perspective (TCE and AT): suppliers integrate assets of high specificity (key account management), and outsource assets of low specificity (logistics, invoicing), which are controlled through either a BSC or an ACS.
- Relational perspective: the success of this model depends on the level of trust between suppliers and distributors. A PIM is positioned as the outcome of the various actions considered by suppliers and distributors to develop trust between them. Trust is positioned as a prerequisite for partially integrated models.
- Evolutionary perspective: the decisions taken by suppliers are based on the evolution of the modern trade channel and the learning acquired from other suppliers. This makes this model specific to UAE and KSA. Moreover, a PIM is positioned as an evolution in the level of trust between suppliers and distributors.

Each of the DRM strategies adopted by suppliers is influenced by its associated context.

- Full outsource models are dominant in traditional trade countries like Iraq. Suppliers adopting a FOM opt to operate through distributors who act as local representatives of suppliers in their market, as seen in Cases 1, 2, and 3. The balance of power is skewed towards distributors who play a generalist role by managing and coordinating all the sales and distribution activities. Suppliers play a supervisory role by deploying a basic control system based on fixed

margin contracting, and a market manager who sets objectives, supports distributors in meeting these objectives, and monitors performance. The agency costs incurred by suppliers to deploy such systems are far less than the costs of integration (financial and market risks). Suppliers here do not have a direct relationship with trade; their downstream supply chain participation stops at the distributor tier.

- Partially integrated models are dominant in mixed channel markets like KSA and modern trade markets like UAE. Suppliers adopting a PIM operate in the markets alongside their distributors. Suppliers aim to drive effective supply chain collaboration when each member of the dyad takes over the capability where he can add value the most, thus contributing to the overall performance of the chain. Here, the power is balanced between suppliers and distributors. Suppliers internalise key account management functions, and outsource invoicing and execution functions to distributors. Such a governance structure necessitates daily coordination, integrated planning and processes. It holds suppliers accountable for the development of their distributors' capabilities. The partial integration costs incurred by suppliers (integrating market management, key account management, system and processes, capability development) remain less than full integration costs, which might justify the reason suppliers favour this model following the cases that have already adopted it (Cases 9, 12, and 15) and those willing to deploy it (Cases 6, 7, and 8). Even though suppliers in a PIM are still playing a supervisory role, they are more engaged with the distributors' teams. The market manager and the key account manager are based in the offices of the distributor, in most cases. Their responsibilities include aligning the distributors on objectives and strategies motivating the distributor's sales force, controlling trade investments and negotiating with key accounts. This model is based on reducing the probability of dyadic risks occurring but not eliminating them. Less backward information asymmetry is expected. Suppliers have a direct relationship with trade, which is restricted to managing the negotiation, initiation of category management programmes, and transfer of shopper research. The downstream supply chain participation stops at the distributor tier for traditional trade channel management, and reaches the retail

tier for modern trade retailers specifically on the level of key account negotiation.

- Vertically integrated models are restricted to suppliers who have experienced a bad relationship with their distributors (lack of trust), and can afford the resulting costs of integration. This is applicable to three of the four VIM cases explored. Suppliers adopting VIMs decide to operate in the markets without distributors, and favour managing most of the sales and distribution activities. Apart from logistical assets, suppliers do not differentiate between the specificity of assets. Power is skewed to the suppliers, leaving distributors with a very specific role restricted to logistics. Some cases explored demonstrate how suppliers are reducing the role of their distributors from a generalist role to a service provider role (Case 4). Other cases show how suppliers have decided to discontinue their existing relationships, and outsource only the logistical activities to specialised service providers (Cases 5, 13, and 14). A VIM dyadic risk mitigation strategy is based on the total elimination of dyadic risks and is more applicable to risk neutral suppliers. Suppliers are, however, faced with other types of risks associated with the costs and complexities of vertical integration. The concerned suppliers acknowledge the implications of these costs and other hidden costs (legal complexity, credit risks, inflation), which may question the sustainability of VIM in the Middle East. The downstream supply chain participation reaches all supply chain tiers. Decisions are centralised to the supplier, and service providers are given a transactional role.

The majority of suppliers in the Middle East are not willing to take uncalculated risks. The PIM provides a trade-off between the benefits achieved from integrating certain functions (reducing the probability of dyadic risks occurring), and those achieved from outsourcing others (low exposure to financial, complexity and market risks).

A PIM accordingly represents a theoretical mix between the transactional, relational, and evolutionary approaches and thus confirms that the scope covered by TCE and agency theories should be widened when exploring supply chain issues (Wever *et al.*, 2012).

The research shows that the intensity of dyadic risks is influenced by the corresponding institutional environment. In mixed channel and modern trade countries like KSA and UAE, higher levels of dyadic risks are identified. Suppliers in these countries find it difficult to control their outcome and behaviour based performance due to the nature of the sales and distribution activities (unprogrammable tasks following Eisenhardt (1988)) and the potential opportunistic behaviour of distributors. Distributors in modern trade countries face substantial uncertainties due to the possibility of losing their role at any point in time (as seen with five dyadic cases). Such a possibility drives distributors to make the most of the present, as predicted by the agency theory. The opportunistic behaviour of distributors is also driven by the erosion of power (know-how) due to the physical presence of suppliers in KSA and UAE, and the hiring of local resources. This leads them to conceal information (information asymmetry) that could reveal their weaknesses, as assumed by TCE and the agency theories. On the other hand, lower levels of dyadic risks are identified in traditional countries. Suppliers are not apprehensive about the opportunistic behaviour of distributors. The cases explored show that the opportunistic behaviour exercised by suppliers in traditional trade countries (transfer of market and financial risks) outweighs similar actions by distributors.

The DRM strategies adopted by suppliers are based on the propositions raised by the transactional approach (P3, P4, P5), and complemented by the relational approach (P6). Trust plays an evolutionary role in supplier distributor relationships in the Middle East due to the fact that building trust takes time (Anderson and Weitz, 1992), during which suppliers and distributors engage in various learning processes. The dynamic role of trust was demonstrated in P6, showing that the failure to build trust may lead to relationship failure, and the evolution of a supplier's model to VIM when critical scale exists (P5). Trust may also lead to relationship restoration, driving suppliers to move from basic or advanced control systems (P3) to further collaboration and partial integration (P4). The DRM strategies adopted by suppliers are based on the agency (P3) and TCE (P4 and P5) theories. Cases explored show that suppliers in the Middle East are risk averse, which is not in line with the predictions of the theory (Eisenhardt, 1989). Suppliers favour a relational mix based on trust and control over vertical integration strategies. Suppliers that opted for vertically integrating the sales and distribution activities made their decisions based on relational failure (cases of low levels of trust).

The multiple cases analysed illustrate different cause and effect relationships. Dyadic risks and the corresponding DRM strategies are adapted to changes in the environment, as proposed by the evolutionary theory. The DRM strategy is set based on the probability of dyadic risks occurring (high probability in modern trade contexts, low probability in traditional trade contexts). The relationship between suppliers and distributors is dynamic in nature, showing that suppliers and distributors engage in learning processes that influence the way they perceive dyadic risks and the choices they make to mitigate them. It can also be concluded that the identification of dyadic risks is affected by the risk awareness of dyadic members. This is supported by the fact that some suppliers adopted DRM strategies (PIM, VIM, trust) earlier than others. Some have learned from what others underwent, and are currently considering different DRM options.

The current and expected behaviour of suppliers in evolutionary channel contexts (UAE, KSA) places distributors in uncertain situations. Distributors whose businesses significantly depend on suppliers in KSA and UAE face higher levels of dyadic risks. This is not the case in Iraq, as suppliers are comfortable with outsourcing their sales and distribution activities. The cases explored show that distributors mitigate dyadic risks by investing in the relationship as well as outside it. Investments in the relationship include adopting specialisation DRM strategies that contribute to gaining the trust of suppliers. Distributors who have succeeded in building trust with suppliers were able to explore different diversification strategies with them (backward integration into manufacturing: Cases 13, 14, and 15, and geographical expansion: Cases 1, 2, 9, 12, and 15). Following the cases explored, the research shows that trust is an outcome of specialisation strategies, but is a prerequisite for diversification strategies.

Some distributors, however, have not only relied on investing in the relationship but have also considered divesting outside the relationship. The research shows that the divestment strategies adopted by distributors include building specialised logistical services that can be sold to other suppliers (Cases 4 and 7), diversifying into manufacturing by creating their own brands (Cases 1, 7, 11, 2, and 8), as well as diversifying into retail (Cases 7,2,12, and 1). Strategies adopted by distributors to mitigate dyadic risks transform the role of distributors in the Middle East from local to

regional distributors, or perhaps to strategic partners. The research confirms that suppliers who have succeeded in building trust will be affected by lower levels of dyadic risks, which contributes to further collaboration across the supply chain (Dekker, 2013; Nyaga *et al.*, 2009).

5.3 Research Contribution

This section discusses the contribution of the research to both theory and practice.

5.3.1 Contribution of the research to theory

The supply chain literature is rich in exploring the sources and consequences of supply chain and outsourcing risks (Christopher and Lee, 2004; Laeequddin *et al.*, 2010; Whipple *et al.*, 2010; Bourlakis and Melewar, 2011). However, there is a scarcity of research exploring supply chain issues in the Middle East; also no research has been found specifically examining dyadic risks between FMCG suppliers. The findings of this research bring the Middle East to the valuable pool of knowledge exploring supply chain issues. By building on existing theories, the research is able to demonstrate that the transactional approach cannot explain DRM strategies independently from the evolutionary and the relational approaches, in a context like the Middle East.

Trust and commitment play significant roles in driving effective collaboration across the supply chain and attenuating supply chain issues (Dekker, 2013). TCE is criticised for neglecting the social embeddedness of transactions. Trust proved to have a prominent role in relationships in the Middle East on the inter-personal and inter-organisational fronts, thus supporting the literature that considers trust as the single most important variable influencing interpersonal and inter-organisational behaviour (Kiesling *et al.*, 2004). Cases explored show that the differentiation between trust as a prerequisite and trust as an outcome provide clearer explanations for the understanding of dyadic risk mitigation strategies. By acknowledging this differentiation, the research shows that suppliers and distributors collaborate together to achieve a certain prerequisite level of trust that the distributor can use to explore diversification strategies with suppliers. By jointly developing trust, suppliers and distributors engage in learning processes that drive them to adapt their capabilities to the evolution in the environment. DRM

strategies adopted by suppliers in the Middle East confirm the necessity to consider the role of trust, which supports the authors who suggest taking the cultural and social context into account when examining governance structures (Steenkamp and Geyskens, 2012). This implies an association between the learning processes and the trust development processes, which shows that the evolutionary and relational approaches are explored in conjunction.

Another criticism of TCE is associated with the dichotomy between two types of governance structure: pure hierarchy and pure markets (Perrow, 1986). Although TCE suggests hybrid structures as an intermediary form of governance, not enough focus is given to this structure form (Hennart, 1993). Cases explored show that a partially integrated model is best practice for successful supplier-distributor relationships in the Middle East, and provide a good example of effective supply chain coordination (Whipple et al., 2010). This shows that suppliers and distributors in KSA and UAE mitigate dyadic risks by further building on their relationships. The human assets in charge of the collaboration have a dual responsibility: one is linked to the mitigation of dyadic risks and the other is linked to gaining the distributor's trust by developing his capabilities, noting that one might conflict with the other, depending on how the distributor evaluates the controlling actions adopted by the supplier (Laequddin *et al.*, 2012). The sales person is supposed to build rapport, being close to end consumers in order to drive all the sales efforts towards value creation and partnership development (Rackham and DeVincentis, 1999). The existence of trust is also positioned as a prerequisite for the successful deployment of a partially integrated model.

The integration of the evolutionary approach proved to be of great value to theory for several reasons. Firstly, the only study (which is also non empirical) that was found in the literature examining distributors or agents in the Middle East dates from 1979 (Dunn, 1979). The research confirms that the identity of the relationship between suppliers and distributors between 1979 and 2014 has dramatically changed. Distributors then were positioned as sole representatives of suppliers' brands in local markets (Dunn, 1979). As predicted by the research, changes in the institutional environment led to several change processes across the supply chain. A relationship is depicted between the institutional environment and the intensity of dyadic risks, which

supports the epistemological stance adopted by the researcher. The findings across the three contexts trace the evolution of supplier-distributor relationship in the Middle East from what it was in 1979 to what it is today, and to what it should be in the future (PIM). The nature of the collaboration between suppliers and distributors has thus evolved from a model where suppliers have a minimal role in sales and distribution activities (FOM) to a model where decisions and responsibilities are mutually shared (PIM), and then to a model where all decisions and responsibilities are centralised with the supplier (VIM). This shows that formalisation and centralisation help suppliers in reducing the complexities associated with their network, as proposed by Choi and Krause (2006).

The transactional theory is mostly concerned with the opportunistic behaviour of the distributor (agent). This research confirms that suppliers can be as opportunistic as their distributors, unlike what is proposed by the agency theory (Eisenhardt, 1988). The unpredictability of suppliers and the existence of VIM cases place distributors under recurrent uncertainties, which drives them to act opportunistically. Another signal of a supplier's opportunistic behaviour is explained by the evolution of the models from FOM to VIM. In FOMs suppliers are not willing to absorb risks, which are transferred to distributors in return for a compensation fee (fixed margin contract). Because most responsibilities related to the supplier's growth in terms of scale are in the hands of the distributor (regional distribution, availability), it can be noted that a significant share of the former's success in traditional trade markets is attributed to the latter. With the evolution in trade and the growth of suppliers' scale, suppliers find it less risky to internalise part of the sales and distribution activities. In PIMs, they internalise responsibilities that are less complex to manage and that bring them more value, while transferring financial and complexity risks to distributors. Suppliers adopting PIMs to grow their businesses in modern trade will be able to reach the critical scale that drives them to integrate more activities in the future (invoicing, execution functions). This has been confirmed by the VIM cases explored. A distributor, positioned as an active partner in a PIM, may witness erosion in his role tomorrow once the supplier is able to afford integration costs. This shows that suppliers start by relying significantly on distributors when this serves their best interests (traditional trade fragmented markets, risk transfers), and then reduce this dependency based on the evolution in the market,

the growth in scale, and the know-how accumulated. Such an opportunistic behaviour is confirmed even by distributors that are well perceived by suppliers. Moreover, the agency theory assumes that agents/distributors are risk averse, whereas suppliers/principals are risk neutral (Jensen and Mecking, 1976; Fama and Jensen, 1983; Eisenhardt, 1989; Wiseman and Gomez-Mejia, 1998). The research confirms that risk averse behaviour may be fatal for distributors as this may prevent them from taking courageous investment decisions about specialisation and diversification. It may also block them from engaging in dedicated investments to restore or reinforce their relationship with their suppliers.

This research shows that the theoretical perspective to understand DRM strategies in the Middle East embraces the agency, TCE, relational, and evolutionary theories. As suggested by Leavy (2004), the research shows that outsourcing the sales and distribution activities in modern trade markets may drive suppliers to lose the skills they require to compete in the future. The research confirms that outsourcing activities are justified in traditional trade markets, but take into account industry evolution in mix channel and modern trade markets, as noted by Leavy (2004). The research shows that a model that was justifiable in the past might no longer be so in the present or in the future. Suppliers and distributors react to the changes in the environment by dynamically evolving their models (Argyres, 2011). The evolution of the distributor's model is driven by investments in dedicated capabilities that enhance the levels of trust and increase the levels of specialisation following the dynamic capability and the relational approaches. The evolution of the supplier's model is driven by the integration of assets of high specificity (mainly human assets) following the transactional approach. The role of these assets is important in further enhancing the levels of inter-organisational and intra-organisational trust. Intangible assets such as knowledge sharing processes, frequent and consistent communication, and goal congruence promote understanding and mitigate opportunistic behaviour (Malhotra and Majchrzak, 2004).

Lastly, TCE has been criticised for its generality (Dore, 1983), yet this research provides additional evidence about the universality of TCE, notwithstanding that there is a scarcity of relevant work conducted in the Middle East.

5.3.2 Contribution of the research to practice

The research provides a valuable practical contribution for both suppliers and distributors. Table 5.4 depicts eight areas of contribution to practice connected together along a transformation road map (red arrow). Each of the areas results in tangible managerial implications and is supported by solid tools that can be used by managers (suppliers and distributors) in practice. The red arrow shows that the thesis ignites a transformation process that mainly focuses on the ante transformation phases (Phases 1 to 5) but also covers the post transformation phases (Phases 6 to 8). Suppliers and distributors significantly affected by dyadic risks who have not yet considered transforming their models may benefit from all eight phases of the transformation process. Others in more advanced phases, who need to sustain or improve their positions, may find the need to pay greater attention to specific phases of the process. This section covers each of the eight phases of the transformation process. The ante transformation phases are presented each in separate subsections below.

	Research Contribution/ Transformation Phase	Managerial Implications	Tools to be used in practice
Ante	1 Environmental Analysis	- Identify the need to change. - Classify case: resilient v/s vulnerable	- SWOT - Strategic directions
	2 Stakeholders Engagement	- Build a Risk Awareness Culture	- Communication Kit
	3 Dyadic Risk Diagnosis	- Assess Dyadic Risk level - Classify current relationship status: <u>Where are we now ?</u>	-Dyadic Risk Identification Grid (DRIG) -Dyadic Risk Mapping Matrix (DRMM).
	4 Relational Vision Definition	- Identify Target Model: <u>Where do we want to be ?</u>	- Trust Assessment Grid (TAG) - Trust Mapping Matrix (TMM) - Vision Statement
	5 Dyadic Risk Mitigation: Capability Requirements	- Identify the capabilities required to achieve the vision: <u>How do we get there ?</u> - Evaluate the optimal choices given business context (limitations, scale...).	- Simulators: Cost and Benefits of DRM strategies - Optimal decision matrix. - Strategic positioning matrix
Post	6 Execution of DRM strategies	- Capabilities: Development, Integration, Outsource	- Execution Road Map
	7 Tracking of DRM Strategies	-Dyadic Risk Tracking	-Review of Dyadic Risk Identification Grid.
	8 Learning: Following the impact of the DRM strategies	-Post Performance Evaluation	-Evaluation and Learning (pre-post transformation)

Table 5.4. Research Contribution in Practice

Data gathered to address the research question proposed provides concrete evidence of how leading multinational companies and major distributors identify and react to dyadic risks. The interviewed companies are considered industry benchmarks and trend setters, and their reactions (past, present and future) to dyadic risks is a representation of how the FMCG business is likely to evolve in the Middle East in response to threats and

opportunities. Cases analysed segment multinational companies and their distributors into two clusters:

- **Resilient cluster:** companies that have the critical scale and who have succeeded in mitigating dyadic risks using one of the DRM strategies proposed by the research. They have adapted their capabilities to the evolution in the market and are considered industry benchmarks in mitigating dyadic risks.
- **Vulnerable cluster:** companies that have failed to adapt their capabilities to the evolution in the market, and might have faced scale issues blocking them from evolving at the pace of resilient cases. Nevertheless, critical scale is not a requirement for all DRM strategies proposed by the research (BCS, ACS), making these companies highly vulnerable to dyadic risks.

The research findings help managers (suppliers and distributors) compare their models to those of competitors, thus building a comprehensive SWOT analysis based on the analysis of leading suppliers and distributors in the Middle East. Before building such a SWOT, a manager needs to position his case relative to competitors.

The figure shows that companies in a disadvantaged position versus competitors are substantially vulnerable to dyadic risks. This has been supported by the research, as companies who succeed in mitigating dyadic risks are able to better control their performance (outcome and behaviour based performance) versus competitors.

- Situation I: highly vulnerable to dyadic risks as my company is adopting an ACS, whereas competitors are adopting a PIM. Here, competition has better control over its performance, which will ultimately result in higher growth rates and higher market share. Moreover, the integration of the key account management function, a pillar of PIM as presented earlier by the research, gives competition an edge in key account negotiation, cost optimisation, category management and new product introduction. This will also result in better performance, mainly in the modern trade channel, making the competition model a significant threat.
- Situation II: is an acceptable situation as my company is adopting a model that is at parity with the competition's model.

- Situation III: is a resilient situation as my company is adopting a model representing the benchmark in the market, which gives an advantage in better controlling performance across all channels. The full control of my cost structure also helps in optimizing my costs and fuelling my growth, making my model a threat for competitors, a situation opposite to Situation I.

A manager (distributor side) would interpret Figure 5.1 as follows:

- Situation I: highly vulnerable to dyadic risks as I am still following a generalist distribution model whereas my competitors are more specialised. Specialisation gives an advantage in terms of costs and capabilities and helps attract new suppliers. Competitors can even attract suppliers from my own portfolio, which puts me at greater risk. Here, the model of competitors poses a major threat to my organisation.
- Situation II: is an acceptable situation as I have the same level of specialisation as my competitor.
- Situation III: is a resilient situation as my company is adopting a model considered the benchmark in the market. I am as specialised as my competitors, but I have also diversified into manufacturing, retail, or new areas. Diversification makes me less dependent on suppliers, and specialisation makes the latter more dependent on my services. My model is a threat for competitors, a situation opposite to Situation I.

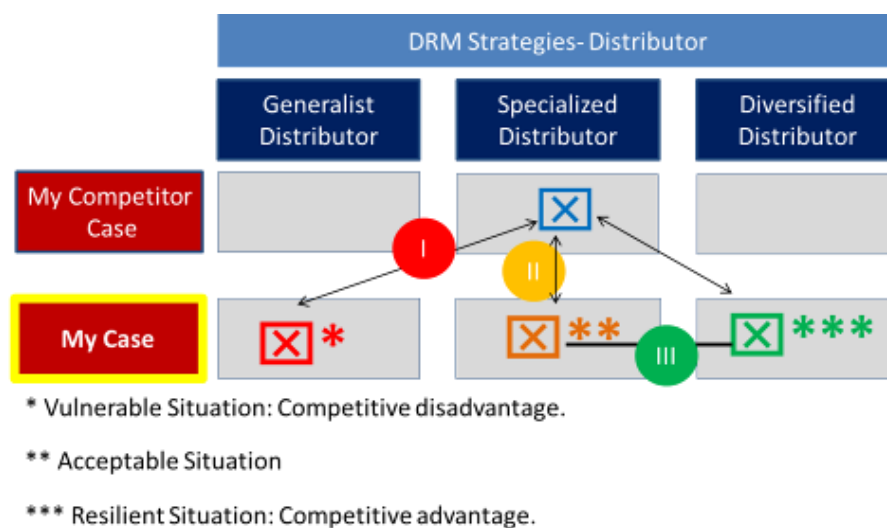


Figure 5.1. My Dyadic Risk Mitigation strategy versus my Competitor's

A typical SWOT analysis of the analysed cases is presented in Table 5.5, which differentiates between companies that succeeded in mitigating dyadic risks (resilient cases) and those that failed (vulnerable cases). Companies in UAE and KSA who have the scale but have not yet considered a PIM (benchmark model following the cases analysed) might be in a disadvantaged position. Managers in these companies should consider the transformation of their distribution models as they are severely affected by dyadic risks. Their distributors are benefiting from such a situation and are acting opportunistically by taking the relationship for granted and not investing in the business. In markets highly dominated by modern trade retailers, where transaction costs are increasing, the inability to control operating costs and identify alternative investment sources may be detrimental. In these countries, distributors who highly depend on suppliers, and have not considered any of the mitigation strategies followed by industry benchmarks, may also face distressing situations. A SWOT analysis is a universal tool adopted by managers to frame their weaknesses and strengths relative to the threats and opportunities in the markets. The SWOT analysis depicted in Table 5.5 can be used by managers (suppliers and distributors) to situate their companies (column in yellow) relative to typical resilient and vulnerable cases. By knowing where they stand, managers can set strategies allowing them to reach the desired targets (T). The research drives managers to select between two strategies:

- **Sustain and grow strategies:** applicable to resilient companies where Situation I (or II) mostly describes their competitive positioning. Managers from these companies should focus their resources on sustaining their elements of strength, pursue driving the levels of trust, and accelerating their growth.
- **Step change strategies:** applicable to companies vulnerable to dyadic risks. Here, managers should consider igniting a transformation process to develop their capabilities, evolve their model, and restore the levels of trust. If these companies fail to use their elements of strength (including critical scale) to drive the relationship forward, the probability of relationship termination will increase.

Clusters	Dyadic Members	Strength	Weakness	Threat	Opportunity	How do I position my company	IF	Strategic Direction	
Resilient Benchmark Cases	Suppliers	<p>-Adapted capabilities to market evolution and mitigated dyadic risks</p> <p>a-Iraq: Evolved from a Basic Control System to an Advanced Control System. Deployed a Market Manager and special programs to develop distributor capabilities</p> <p>b-KSA/UAE <u>Critical Scale Cases:</u> Built strong capabilities and partially mitigated dyadic risks by Evolving from a Full Outsource Model (BCS or ACS) to a Partial Integrated Model: - Integrated Key Account Management (Direct negotiation). - Information Integration</p> <p><u>High Scale Cases:</u> Built strong capabilities and fully mitigated dyadic risks by Evolving from a Full Outsource Model (BCS or ACS) or a Partial Integrated Model to a Vertical Integrated Model: - Integrated Key Account Management, Execution Functions and Invoicing - Information Integration - Capability Development</p>	Low			<p>a- Iraq: - Growth potential - <u>Availability of distributors willing to absorb risks</u></p>	✓ OR ☒	✓	Sustain and Grow
	Distributors	<p>-Adapted capabilities to market evolution and mitigated dyadic risks</p> <p>a-Iraq: Mitigated dyadic risks by achieving high levels of trust with their suppliers: upgrading their logistical capabilities and covering all the regions in Iraq.</p> <p>b-KSA/UAE <u>Critical Scale Cases:</u> Mitigated dyadic risks by achieving high levels of trust with their suppliers through specialization (logistical providers and special services) and effective collaboration.</p> <p><u>High Scale Cases:</u> Mitigated dyadic risks by leveraging on trust and building a strategic alliance with their suppliers.</p> <p>c- Iraq/KSA/UAE Mitigated dyadic risks through diversification (manufacturing, regional expansion, retail).</p>	Low	<p>a- Iraq: - Security situation - <u>Competition</u> - Regulation</p> <p>b- KSA: - Trade Evolution: <u>cost inflation</u> - Competition (integration, outsourcing, Specialization, diversification cases) - Regulation</p> <p>C- UAE: - Trade Evolution: <u>cost inflation</u> - <u>Bargaining power of retailers and margin erosion</u> - Competition (integration, outsourcing, Specialization, diversification cases) - Regulation</p>	<p>b- KSA: - Growth potential: demographics - Market evolution - Public spending - Availability of investors - <u>Availability of distributors willing to invest and share risk</u></p> <p>C- UAE: - Growth potential. - Evolved market, sophisticated consumers - Rise of Value added products - Availability of investors - <u>Availability of distributors willing to invest and share risk</u></p>	✓ OR ☒	✓		
Vulnerable Cases	Suppliers	-Have the critical scale	<p>-Highly affected by dyadic risks. - Limited ability to control their performance - Capabilities not adapted to market requirements. - Low levels of trust with their distributors.</p>			<p>✓ OR ☒</p>	✓	Step Change: Ignite a transformation process.	
	Distributors	-Have the critical scale	<p>-Highly affected by dyadic risks. - Generalists: Failed to build specialized capabilities and optimize operating costs. - Low levels of trust with their suppliers. - Failed to use their scale to diversify outside the relationship.</p>			<p>✓ OR ☒</p>	✓		

Table 5.5. Typical SWOT by Cluster of Cases

The research suggests that the last recourse for dyadic risk mitigation considered by a supplier would be to terminate the relationship with the distributor and operate in the market independently. This is confirmed by the cases in Iraq, but less so by the cases in KSA and UAE. Vertical integration in KSA and UAE is perceived as either a consequence of relationship failure in cases where suppliers terminated the relationship with distributors due to lack of trust, or a consequence of relationship success in cases where suppliers entered into strategic alliances with their distributors.

This notion is fundamental for multinational suppliers, specifically in the Middle East, where companies like P&G, Mondelez, and Nestle are considering partnering with local companies like Olayan & IATCO through joint venture arrangements. In volatile and legally complex markets, the availability of local companies willing to share risks can be viewed as an opportunity that drives multinational suppliers to expand their industrial presence, optimise their supply chain costs, accelerate their growth, and enhance their competitiveness. For shareholders (supplier side), it is always faster to approve an investment plan with a partner willing to share the risk, especially when distributors (the ones interviewed at least) do not show interest in intervening in the management aspect of the relationship. Distributors are willing to be placed as silent partners as long as they are safeguarded against hazard. The research shows that distributors may seek long term sustainable safeguards from suppliers and become more resilient to dyadic risks. The option of strategic alliances is available and has been confirmed by four cases explored. Trust is positioned as a prime prerequisite for such an option to materialise. The research shows that investment behind trust brings about short term benefits (successful collaboration through partially integrated model) as well as long term benefits (strategic alliance through vertical integration).

The importance of such a notion may also be specific to eastern areas like the Middle East, where trust is given a pronounced cultural role. The fact that some suppliers and distributors view trust as a substitute for formal contracting should encourage managers from both sides of the dyad to focus on the mutual development of trust.

The research engages the various stakeholders on collaboration themes rather than separation themes. Cases analysed demonstrate that suppliers and distributors, who

consider strategies individually without assessing the implication of their behaviour on the dyad, are more vulnerable to dyadic risks. Those who invested in trust, on the other hand, considered strategies that made the relationship more resilient to dyadic risks.

By reading the research, managers in supplier type organisations might not be surprised by some of the findings, especially those related to integration. On the other hand, findings associated with the role that trust plays in dyadic relationship in the Middle East will drive them to focus on trust development strategies. The research also provides them with trust development tools that will be explored in the dyadic risk mitigation phase.

Distributors who only focus on the fact that suppliers are unpredictable and may terminate the relationship at any point in time will moderately benefit from the research findings. On the other hand, those who acknowledge that suppliers are unpredictable, yet conversely position trust as a strategic transformation driver, will benefit from the research the most.

The research tells managers (suppliers and distributors) to go ahead and invest in trust. It is up to suppliers to drive this engagement and transmit these concepts. A presentation kit can be derived from the research that helps managers (from the supplier side) in summarizing these key trends, focusing on the strategic importance of building trust to mitigate dyadic risks and drive successful and sustainable supplier distributor relationships. Such a kit drives risk awareness and should not only be perceived as a tranquiliser, but rather as a catalyser that helps suppliers and distributors ignite the transformation process. The process is based on mitigating the threats and exploring the opportunities by analysing the current relational situation (dyadic risks diagnosis), committing to a mutual relational vision, and agreeing on the optimal DRM strategy to achieve the vision. These phases are presented in the sections that follow.

The first two phases of the transformation process are preparatory phases. Phase 1 guides a manager in building a SWOT analysis following an in-depth industry study presented in the research. The second phase, which is initiated by suppliers, joins dyadic members in a forum that helps build awareness on the notion of dyadic risks and the

mitigation strategies adopted by leading companies (suppliers and distributors) to develop the level of trust built and evolve their models accordingly.

The third phase is a stepping stone in the transformation process, as it moves away from generalities and market trends and closer to the internal issues and risks that dyadic members are facing. An important contribution of the research is assessing dyadic risks from the perspective of both members of the dyad in order to have a common understanding of the issues facing each member. Conducting interviews with one member only would have resulted in a skewed analysis, leading the other to block the transformation process as a result.

Gathering insights from both members of the dyad contributes to reducing the level of bias that is bound to occur in agency type relationships. It also helps in mitigating the resistance to change, as it puts each member of the dyad in the place of the other.

The themes derived from the research help managers (suppliers and distributors) diagnose the dyadic risks involved in the relationship, thus allowing them to frame the issues faced and assess their intensity levels to be able to set the appropriate mitigation strategies at a later stage. Diagnosing dyadic risks helps members understand each other's interests and achieve a common comprehension of the challenges facing the relationship. Without such a diagnosis, dyadic members may be accumulating issues of minor implications in the present that could potentially have serious consequences in the future. The immediate identification of such issues pre-empts their amplification and orients dyadic members toward relationship evolution instead of relationship termination. The research provides tangible evidence of cases that have witnessed relationship termination, others that witnessed relationship development, and others that underwent relationship restructuring.

To help managers assess dyadic risks, the research presents a set of tools; the first tool is a dyadic risk identification grid, the objective of which is to help managers (suppliers and distributors) identify the sources of dyadic risks. The research presents a set of themes that guides managers in identifying the sources of dyadic risks. These themes have been derived from the multiple cases analysed, but their relevance needs to be

validated for the specific case under study. The grid helps managers determine the relevance level of each theme and suggests new themes deemed valid for their organisations. The Excel template worksheet that can be used by managers to identify dyadic risks is presented in Table 5.6 for suppliers and Table 5.7 for distributors. Managers can use these grids to identify the sources of dyadic risks affecting their relationships. The supplier grid (Table 5.6) can be extended to cover multiple cases in different countries (add columns) and new dyadic risk themes relevant to the concerned case (add rows). The distributor grid for (Table 5.7) can be extended to cover multiple suppliers (add columns) and new dyadic risk themes relevant to the concerned case (add rows).

The supplier grid is designed based on a regional dimension, allowing suppliers to assess the impact of the context (channel evolution) on the intensity level of dyadic risks. The research indicated that some sources of dyadic risks are more relevant for modern trade countries, like UAE, than for traditional trade countries, like Iraq. The distributor grid, on the other hand, cannot be designed based on regional dimensions as distributors lack regional presence and are more interested in identifying the sources of dyadic risks for each supplier. Data presented in these grids is gathered through meetings where dyadic members agree on the key themes affecting their relationships and evaluate the relevance of these themes.

Derived from the research		Dyadic Risk Identification Grid Supplier-DRIG-S			To be filled in by managers		
Dyadic Member	Risk Category	Source of Risks	Risk Definition	Relevance**			
				Iraq	KSA	UAE	
S	Control Outcome Based Performance	Control sales and stocks	The inability to identify growth opportunities and control growth drivers by: channel/customer is a high risk for us.	Medium	High	High	
			The inability to control and optimize stock levels by channel/customer is a high risk for us.	Medium	High	Medium	
Control actual price to trade		The inability to control the actual prices invoiced to trade and optimize trade margins is a high risk for us.	Low	High	High		
Control actual trade funds		The inability to control and optimize the investments at retail is a high risk for us.	Low	High	High		
Control actual Cost to serve		The inability to control and optimize the structure of costs (fixed and variable) is a high risk for us.	Low	High	High		
Control actual distributer Margin		The inability to control the actual margins made by our distributor is a high risk for us.	Low	High	High		
Add Source of Risk*							
S		Control Behavior Based Performance	Information Sharing	The lack of information sharing systems is a high risk for us	Low	High	High
S	Alignment: Objectives and Strategies		The lack of alignment on objectives and strategies is a high risk for us.	Medium	High	High	
S	Control quality of execution		The inability to control the quality of execution at retail (freshness, visibility, distribution, product launches) is a high risk for us.	Low	High	High	
S	Capability of sales teams		The inability to control the skills and competence of the sales teams (Leadership, General Sales Management, Channel Management) is a high risk for us.	Medium	High	High	
S	Level of Focus (Dedicated Capabilities)		The lack of focus on our brands is a high risk for us	Low	High	High	
S	Category Synergies		The lack of category expertise is a high risk for us	Low	High	High	
Add Source of Risk*							

* Managers can add rows if they identify additional sources of risks that they see relevant to their dyadic relationship.

** Managers can add columns if they are interested to include other countries of the Middle East in the Grid.

Table 5.6. Tool Kit – Dyadic Risk Identification Grid on Excel (Suppliers)

Derived from the research		Dyadic Risk Identification Grid Distributor-DRIG			To be filled by managers		
Dyadic Member	Source of Risks	Risk Definition	Relevance**				
			Supplier A	Supplier B	Supplier C		
D	Legal Protection	The lack of law and legislation to protect distributors against hazards is a high risk for us	Low	Medium	High		
D	Market Know How	The physical presence of our suppliers in the market is a high risk for us	Low	Medium	High		
D	Availability of Substitutes	The availability of substitutes who can deploy similar or better capabilities is a high risk for us	Low	Medium	High		
D	Scale and Risk Absorption	The lack of scale and our inability to further absorb financial risks is a high risk for us	Low	Medium	High		
D	Unpredictability of Suppliers	The high level of dependency on our suppliers is a high risk for us					
Add Source of Risk*							

* Managers can add rows if they identify additional sources of risks that they see relevant to their dyadic relationship.

** Managers can add columns to include additional suppliers.

Table 5.7. Tool Kit – Dyadic Risk Identification Grid on Excel (Distributors)

The second tool is a dyadic risk mapping matrix that helps managers (suppliers and distributors) map the probability of occurrence and implications of dyadic risks identified earlier in the grid. The cases analysed in the research revealed that dyadic risks have higher intensity levels in modern trade countries than in traditional trade countries. To protect and improve their margins and adapt to retail evolution, suppliers in modern trade countries should consider transforming their distribution models to

control their businesses. Any transformation action taken by a supplier puts the distributors at risk, particularly vertical integration strategies that may erode the latter's role. The research contributes by providing benchmarks that are different between modern trade and traditional trade countries and which can be used by managers to evaluate the choices made when measuring the intensity level of dyadic risks. The research also provides an Excel worksheet that helps managers measure their dyadic risk intensity levels and visualise their implication. Risk heat maps are common Excel templates used to register and map risks. The sources of risks integrated in the heat map are the ones identified by the research and derived from the grid. Figure 5.2 aims at mapping dyadic risks based on their likelihood of occurrence and their expected impact.

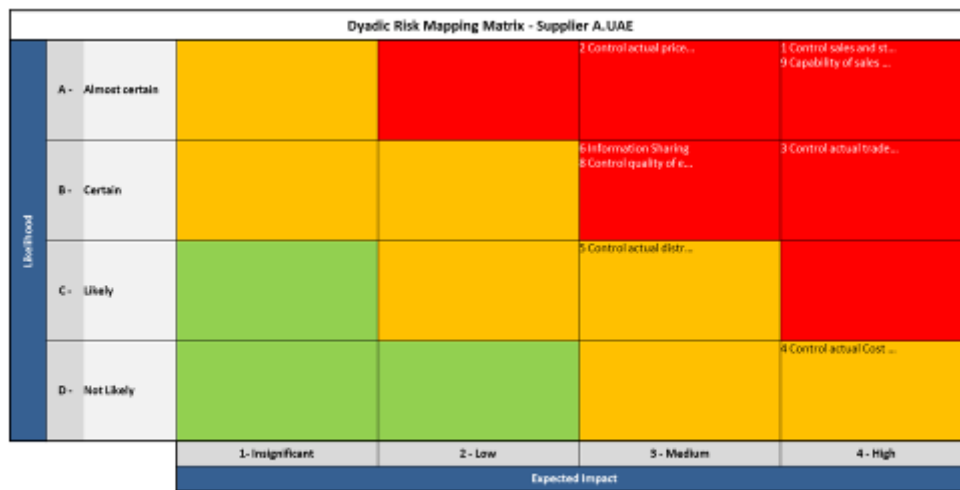


Figure 5.2. Dyadic Risk Mapping Matrix – Supplier UAE

After understanding the current situation, suppliers and distributors should align on their mutual paths. Setting a relational vision helps clarify intentions and determine the future of the relationship. The cases analysed have been classified into four sets:

- Set 1: cases where trust contributed to the evolution of the relationship between suppliers and distributors: (resilient cluster/sustain and grow strategies-see Phase 1)
- Set 2: cases where trust led to the assessment of the relationship between suppliers and distributors: (vulnerable cluster/step change strategies-see Phase 1)
- Set 3: cases where the lack of trust led to relationship failure: (vulnerable cluster/step change strategies-see Phase 1)
- Set 4: cases where trust had a neutral effect on the relationship.

The dyadic risk matrix developed earlier helps managers set their relational vision as the research establishes that the cases experiencing low trust levels are the ones most affected by dyadic risks. Managers can assume that if the dyadic risk matrix illustrated earlier shows high levels of dyadic risks it will be more difficult to set a relational vision.

To understand how trust levels can be restored and dyadic risk mitigated, the research proposes different dyadic risk mitigation strategies. The strategies presented in the next phase help managers orient their strategic choice to identify the optimal approach adapted to their dyadic cases. It is important to note that these DRM strategies are considered to be step change strategies that mainly assist managers whose cases resemble the vulnerable cluster (see SWOT analysis Phase I). Managers whose cases conform to the resilient cluster can use these DRM strategies to validate their strategic directions, as well as sustain and potentially grow their businesses.

The research proposes different dyadic risk mitigation strategies adopted by leading suppliers and their distributors in the Middle East. The research primarily assists managers concerned with restoring or evolving their dyadic relationships, and who are willing to set a joint relational vision. The DRM strategies proposed are dynamic and vary with the variation in the context. The research shows that the strategic choices available for managers in traditional trade countries are not similar to the ones in modern trade countries. Managers in traditional trade countries cannot expect to have the same reaction to dyadic risks as those in modern trade countries. Managers can assume that a full integration of highly specific assets (VIM) can result in the complete elimination of dyadic risks. However, it is important to model the costs and benefits of integration to ensure that solving one issue would not result in the formation of another.

Any dyadic risk mitigation strategy should take into account the benefits and the costs involved. An optimal DRM strategy is one where the benefits of integration outweigh the costs.

Subsequent to illustrating how the research contributes to preparing and igniting a transformation process to mitigate dyadic risks, the next steps exhibit how the

transformation is executed. The current research does not only focus on the identification and mitigation of dyadic risks, but also on the execution of the DRM strategies. The research confirms that companies which succeeded in mitigating dyadic risks were able to better control their outcome and behaviour based performance. Issues that may be faced during the execution are presented as opportunities for future research. It is important to note, however, that for successful execution to take place, suppliers and distributors need to assign dedicated managers who can lead the execution process and manage the resistance to change. These managers could be internal to the organisation or external consultants who supervise the transformation process and deploy capability development programmes.

A manager should also be equipped with tracking tools to monitor dyadic risks. The dyadic risk mapping matrix has to be periodically reviewed. Managers are advised to conduct yearly diagnosis exercises to monitor the performance of their DRM strategies. A performing DRM strategy is one where dyadic members have succeeded in developing the levels of trust. Such a dyadic relationship has been step changed, attaining the set vision. On the other hand, a non performing strategy does not show major improvements in trust levels. Such a dyadic relationship will ultimately be discontinued, similar to the discontinuation cases explored by the research.

The last phase of the proposed transformation process is the learning phase. Following the frequent tracking of their DRM strategies, managers should evaluate their experiences, deduce key learning, and revise their SWOT analysis accordingly. Performing DRM strategies are those which succeed in turning weaknesses into strengths and migrating from the vulnerable to the resilient cluster of cases.

5.3.3 Focus on partially integrated models

The practical contribution of the research is the awareness it raises regarding dyadic risks affecting suppliers and distributors by showing a mosaic of cases in three varied contexts. Awareness might be enough to stimulate change, but not enough to direct change. The research provides guidelines for suppliers and distributors concerning the DRM strategies that need to be deployed to mitigate dyadic risks. The research also assures dyadic members that the DRM strategies deployed in traditional trade markets

like Iraq are not the same as in modern trade markets like UAE and KSA. The research shows that DRM strategies are based on key transformations in their downstream supply chains. In Section 5.3.2, a transformation road map is provided guiding managers (from supplier and distributors) who wish to consider dyadic risk mitigation strategies.

The research also shows how suppliers and distributors can work independently on their own supply chain priorities without neglecting trust, a major aspect that brings them closer. The research provides a list of themes (Section 4.6.5) that contribute to the development of trust between suppliers and distributors. Managers from both sides of the dyad, who are not orienting their resources to trust development themes presented in the research, should not expect an effective collaboration based on trust but rather issues arising from opportunism and information asymmetry. The research also shows that suppliers and distributors have equal responsibilities for the development of trust. Investing in trust is not investing in abstract ideas and concepts, but in concrete trust development actions: organisation structure, capability development, information system integration, and fair margins. The fact that the majority of the models presented in the research are FOMs and PIMs shows that the costs of monitoring and collaborating with a distributor are lower than the costs of integration. The research should drive managers to invest in trust without expecting direct, immediate financial returns from these investments. A supplier investing in training and information systems should not expect a miraculous, short-term improvement in distributor's capabilities. Such benefits will be realised in the long term, and may remain less risky than investments in vertical integrated structures.

As presented in Section 4.4 a partially integrated model stands as a best practice model for this research and is based on accepting each other's strengths and on the mutual sharing of responsibilities. Distributors need to accept that suppliers have an advantage in negotiating with key retailers in modern trade markets. Suppliers can use their category management expertise to sell retailers' solutions that help them enhance category profitability and drive more shoppers to their stores. In this hypercompetitive market, retailers are expecting this type of information which can only be given by suppliers. In addition, funds to retailers originate from suppliers who have the financial

interest of managing these funds better than distributors. On the other hand, distributors are more powerful in managing the transactional and logistical activities.

On the transactional front, distributors have both the systems and the people. The research provides evidence (Section 4.4.1) that in partially integrated models, suppliers are not willing to absorb credit risks. Distributors have succeeded in adapting the management of their cash flow to the complexities of their markets, thus retaining their legitimate rights over the invoicing functions. This entails investments in the right number of people to perform the different transactional activities (order to cash, merchandising, etc.).

Distributors have also invested in the physical logistical infrastructure (warehousing, delivery fleet) which gives them an advantage in retaining the logistical activities. Accepting each other's power in partially integrated models is the starting point for effective collaboration. The division of responsibilities between suppliers and distributors is based on joining forces, eliminating duplications, and setting mutual strategies to serve the end customer in the most effective way. The research shows (Section 4.6.5) that managers from the suppliers' side should initiate such collaboration by balancing economic rewards and non-economic rewards. Economic rewards entail providing distributors with fair margins that cover their operating costs and secure their sustainability. Non-economic rewards include investments in distributors' capabilities, the transfer of know-how, and more importantly recruiting people based on their aptitude to build successful collaboration. This is how suppliers gain the trust of their distributors within a partially integrated system.

Distributors may hesitate to invest in trust as they operate in uncertain conditions that might deter them from making such decisions. The research shows that long-term oriented distributors are those who balance between investing inside and outside the relationship. The themes that the research gives to distributors in the Middle East are of great value for their survival in the future. Distributors in Iraq are less at risk as their role will remain integral in the future. The cases explored show that distributors should not take their relationships with suppliers for granted, even in Iraq. Suppliers in Iraq,

who realise they are operating with distributors that are blocking their growth ambitions, will certainly move to other more competent distributors in the future.

Managers who have not yet built a strategic specialisation and diversification road map may be putting their long-term future at risk. Such an assumption also conveys to distributor shareholders the message that they should consider a partner who can support them in driving change. Some have hired senior executives with extensive supplier experience (Cases 7, 9, 12, and 15) who can build a risk awareness culture and establish a DRM road map. Shareholders can also consider hiring consultants to enhance their distribution capabilities, upgrade their systems, and help them succeed in a partially integrated model. Investing in the relationship entails being experts in the activities that suppliers are not willing to integrate. The different specialisation strategies presented by the research are the strategies that are required to succeed in partial integration. Suppliers do not want to outsource their logistics activities to any distributor but to a specialised, trusted service provider. The research shows that such specialisation is giving the distributor the scale, and the supplier the cost leadership. Distributors are able to gain their suppliers' trust with such win/win collaboration, which is considered to be the basis of partially integrated models. Distributors are also responsible for recruiting people based on their collaborative capabilities. The people who are managing the day to day relationship are the ones who are driving this partial integration. If these people do not work in harmony and with transparency, partial integration is bound to fail, as had been experienced by one of the cases explored (Case 14).

The transformation process proposed by the research includes tangible tools that can be used by managers to ignite a transformation process based on partial integration.

The contribution of the research to practice started to take effect as findings of the research were used by the researcher to initiate a transformation road map within his organisation. The transformation toolkit guided the researcher and helped him to smoothly and collaboratively identify and proceed with transforming vulnerable dyadic cases for Group Bel in the Near and Middle East region. A collaboration model based on partial integration has been defined based on the findings of this research.

5.4 Research Generalisability

One of the drawbacks of qualitative research is associated with the generalisability of data, as presented in chapter 3. This research used both lateral and theoretical replications to validate data. Lateral replication is used by exploring the similarities and differences between the cases, focusing on the themes that are redundant among the 15 cases. Theoretical replication is adopted by correlating the findings with the theory.

The research chose three markets that are representative of the different channel environments in the Middle East. A relationship was established between the context, the identification of dyadic risks, and the corresponding DRM strategies. A full outsource model can be generalised to other countries in the Middle East and Africa with similar trade structures to Iraq (Yemen, Syria, Libya). A partially integrated model can be generalised to other countries that have the same trade structure as KSA (Lebanon, Jordan, Oman, and Egypt) and UAE (Qatar, Bahrain, and Kuwait). The generalisability of vertically integrated models can also be explored in markets similar to KSA and UAE, though the scale, the predisposition to risk and the relationship status with distributors are factors that seem to influence integration decisions. Some suppliers interviewed are adopting VIMs and PIMs in several markets in the Middle East with the same trade structure as KSA and UAE (VIM: Cases 5 and 13, PIM: Cases 9 and 12). Conducting the research in three representative countries in the Middle East thus reinforces its generalisability.

5.5 Research Limitations and Future Research

The propositions derived from the research were discussed with 30 key informants covering 15 multiple cases across Iraq, UAE, and KSA. The findings need to be considered with the following limitations, which can serve as research agendas for future research.

Although the research confirms that the theories chosen to understand the topic are relevant, other theories can also be considered to shed light on specific issues that stem from this research. For instance, a partially integrated model is based on sharing resources between suppliers and distributors. The resource based view theory (Barney,

1991) may be relevant to understanding the issues associated with sharing tangible and intangible resources between supply chain members in order to enhance the competitiveness of the supply chain as a whole. Allred *et al.* (2011) used the resource based view theory and dynamic capability theory to identify how firms can exploit inter-firm resources to enhance their competitive advantages. Specific enablers to enhance an organisation's collaborative capability were identified by the authors. The research also highlights the importance of knowledge sharing between dyadic members, whether in FOMs or to a larger extent in PIMs. The knowledge based theory of the firm is considered an extension of the resource based view theory. It distinguishes between different knowledge based capabilities, by treating knowledge as a strategic resource that enhances the firm's competitive advantage (Nonaka, 1994), instead of a generic resource, as proposed by resource based view theorists. By exploring the risks and benefits of outsourcing, Harland *et al.* (2005) find that knowledge is lacking inside organisations on moving from a 'doing' to an 'outsourcing' operation, with the associated creation, management and assessment of collaborative outsource relationships and contracts. Cao and Zhang (2011) identify seven interconnecting dimensions that make up effective supply chain collaboration: information sharing, goal congruence, decision synchronisation, incentive alignment, resource sharing, collaborative communication, and joint knowledge creation.

Suppliers and distributors may resist change. The dynamic capability perspective is founded on the relationship between the individual, organisation, and environment. Changes in the economic environment are captured by individuals within the organisation whose role is to initiate organisational transformation projects that adapt the organisation to the environment. The individual (or group) within the organisation has a prime role, not only in capturing external changes, but in leading internal changes within the organisation. Future research may focus on how leaders (suppliers and distributors) unblock these barriers and lead transformation road maps to mitigate dyadic risks. Hauschildt (2004) refers to these leaders as champions, who are outstanding individuals to whom the success of any change is attributed. According to Hauschildt (2004), process promoters are project leaders who use their negotiation skills to mediate between the involved and affected parties. Looking at the dynamic capability perspective, process promoters initiate transformation projects that consider breaking

the routines and overcoming administrative barriers. They can be external experts, such as third party consultants, that mediate between suppliers and distributors or internal experts.

This research aimed at understanding the why and how behind the issues proposed. A qualitative methodology that stems from an interpretivist epistemology has been used to gather and analyse data. Now that reality is observable, quantitative methodologies can be used to test the model using a wider sample not limited to senior executives, but including operational managers involved in the daily operations. The sample need not be restricted to FMCG companies, but can include other industries in the Middle East that are also outsourcing the sales and distribution activities, such as pharmaceuticals and electronics. A quantitative methodology will address the criticism of this research with respect to its generalisability.

Some suppliers were initiating their DRM strategies during the course of the data collection phase, and others just a while before it. At such an early stage of implementation, the research was unable to capture the impact of such transformations on firm performance. Future research could consider exploring the same topic but by focusing on a single or a few cases and exploring the post impact of the DRM strategy on firm performance. This will help in evaluating the DRM strategy adopted by suppliers and distributors.

The research dealt with dyadic risks resulting from opportunism and information asymmetry, and focused on the strategic directions adopted by suppliers and distributors. Future research could focus on specific operational issues between dyadic members: supply chain disruptions, information sharing via EDI, and system integration.

The Middle East is a volatile region affected by various environmental risks. This research focuses on network/dyadic risks, but while conducting interviews, many interviewees brought up the environmental risks affecting their supply chains. In such an uncertain context, future research could focus more on environmental risks

(insecurities, volatilities) and assess the actions taken by suppliers and distributors to mitigate these risks.

The research shows that distributors mitigate dyadic risks through specialisation and diversification strategies. The cases explored demonstrated that both strategies contribute to the mitigation of these risks, without taking the financial implications into account, which can be unjustified at times. This could also serve as a topic for future research.

The specialisation strategies in logistics and the evolution of distributors to service providers pave the way to further understanding of how the service provider model works in the Middle East. Bourlakis and Melewar (2011) provide an extensive literature review on outsourcing to service providers that can be used as a basis for future research.

This research shows that the opportunistic behaviour of suppliers, and the possibility of relationship discontinuation at any point in time, is a high risk affecting distributors. This research did not explore the legal protection that distributors should have, but only shows how distributors are losing this protection in some countries. Future research could focus on how distributors are or should be protected by the legal system. The sample should accordingly include legal experts from different countries of the Middle East.

The current research focuses on existing relationships and does not cover how new relationships can be built. This includes covering the criteria for partner identification and selection. Ding *et al.* (2013) find that, when confronted with greater risk from the transaction context, firms place more emphasis on trust-based and reputation-based selection criteria for partner choice and develop more complex contracts to manage the collaboration. Looking at the criteria on which partnerships are formed in the Middle East will be of great value to suppliers who wish to replace their existing distributors with new ones. It will also serve for international suppliers who wish to expand to the Middle East by appointing local distributors. Many multinational companies, for instance, are interested in expanding into white spaces in the Middle East like Iran. How

these companies will enter the market, using which model, and what the criteria used to select partners will be are some questions that need to be addressed.

The research shows that the AT and the TCE theories are relevant to understanding dyadic risks in the Middle East but are not sufficient to explore the dyadic risk mitigation strategies on their own. An integrated theoretical approach that incorporates the transactional, relational and evolutionary perspectives has been presented by the research. This proposition shows that in a hypercompetitive and relationally intensive context, a theoretical domain that does not consider the collaboration between supply chain members and their adaptation to changes in the environment may not be relevant to understanding the different risks. In such a context, a hybrid model such as a PIM is presented as a resilient model that explains the mitigation of dyadic risks. This model is not only hybrid in its governance structure, but also in its theoretical structure as it puts the transaction, relational, and evolutionary approaches under one roof. From a practical perspective, the research has already started to contribute to practice, as has been illustrated in Chapter 5. The findings of this research were used to diagnose the dyadic risks affecting Groupe Bel in the Middle East and to identify the appropriate dyadic risk mitigation strategies. A relational vision based on a win/win collaboration model through a partial integration model has been defined. Such a model has confirmed the direction of Groupe Bel in mitigating dyadic risks with its distributors in the Middle East. The tools used to assess dyadic risks, evaluate the levels of trust, and position the optimal DRM strategy have also been presented in the chapter. Although the questions raised by the research have been answered, other questions can be raised to further deepen the understanding of dyadic risk relationships in the FMCG or in other industries in the Middle East. Chapter 5 has presented how the limitations of the current research can guide future researchers who wish to extend their understanding of the notion of risks (dyadic, networks and environmental) in the Middle East or in other areas.

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Appendices

I. Interview guide

Interview Guide

Date: ---/---

/----

Hady Khalaf Doctorate Research

Supplier – Distributor Relationship in the Middle East

Full Name: _____

Company: _____

Position: _____

	Iraq	KSA	UAE
#			
Case			
Fully integrated: No Dist			
Partially integrated			
Fully outsource			

Can you please describe your sales and distribution model? (FOM, PIM, VIM)

1- What are the key risks that affect your sales and distribution model

“You mentioned _____, tell me more about:

- Your view on opportunism
- Control actual price to trade
- Control actual trade funds
- Control actual Cost to serve
- Control actual distributor Margin
- Information Sharing
- Dependency on supplier (if interviewee is a distributor)

2- What type of arrangement with your distributor will allow you to mitigate those risks? Elaborate on control system.

“You mentioned _____, tell me more about:

- a. The formal contract with your distributor/supplier
- b. Cost Plus Contract with/without incentives
- c. Fixed Price Contract with/without incentives
- d. Special incentives to optimize cost
- e. Information system

3- Can you elaborate on the integration of Sales and distribution activities ?

You mentioned _____, tell me more about:

- a. Integration of Key Account Managers
- b. Integration of Regional Managers
- c. Process and System Integration
- d. Integration of Invoicing
- e. Integration of Logistics

4- Can you elaborate on the outsource of Sales and distribution activities ?

You mentioned _____, tell me more about:

- a. Outsource of Sales Execution: Modern Trade
- b. Outsource of Sales Execution: Traditional Trade
- c. Outsource Invoicing
- d. Outsource Logistics

5- What are the risks that you associate with the integration of the sales and distribution activities?

You mentioned _____, tell me more about:

- a. Financial risks
- b. Costs of integration versus cost of outsource

6- What contributes to the development of trust between suppliers and distributors?

You mentioned _____, tell me more about:

- a. Fair Margins
- b. Investments in human assets (training)Cost sharing

- c. Investments in physical assets (logistics)
- d. Investments in systems: transparency

7- What role does trust play in the relationship between suppliers and distributors?

“You mentioned _____, tell me more about:

- a. The importance of trust in the relationship.
- b. Whether trust substitute formal contracting
- c. Whether the trust in your distributor capabilities substitute the necessity to integrate these capabilities

8- How do you think distributors can mitigate dependency risks?

You mentioned _____, tell me more about:

- a. How do you reduce your dependency on your supplier
- b. The investments that you are incurring or planning to incur in the future
- c. The capabilities that you are building

9- Can you elaborate on the specialisation strategies you are considering?

You mentioned _____, tell me more about:

- a. Logistics and other services Specialisation
- b. Channel Specialisation
- c. Regional Specialisation

10- Can you elaborate on the diversification strategies you are considering?

You mentioned _____, tell me more about:

- a. Geographical Expansion
- b. Manufacturing
- c. Retail

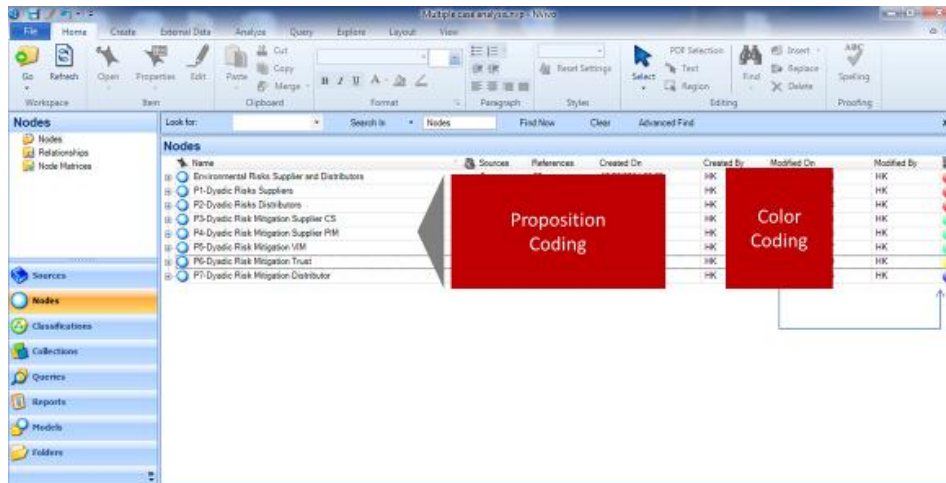
11- How do you see the evolution of the sales and distribution models in the Middle East?

You mentioned _____, tell me more about:

- a. Supplier trends: Integration versus outsource
- b. Distributor trends: specialisation versus diversification

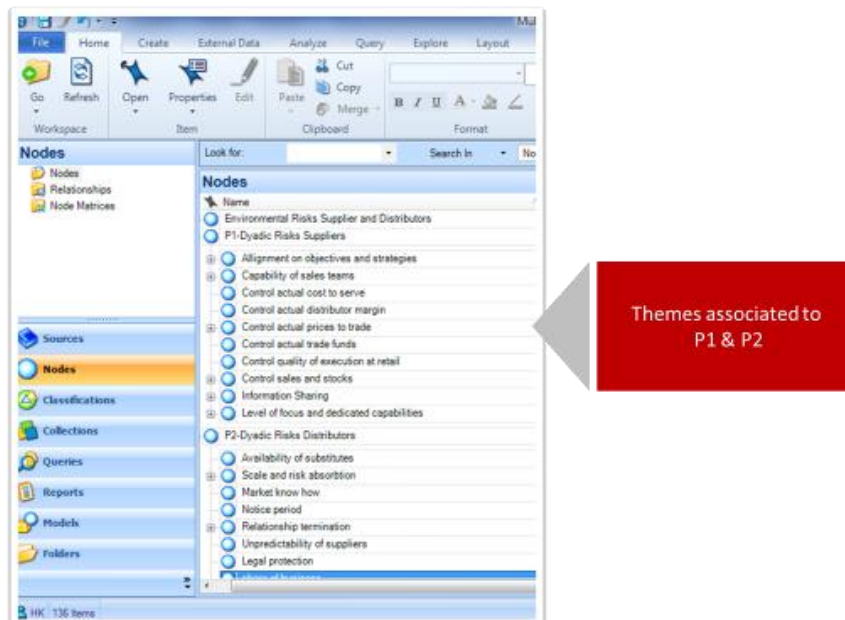
II. Screen shots from NVivo

The following screen shots illustrate the coding of the seven propositions explored during the semi-structured interviews. Different colour codes have been given for each proposition.



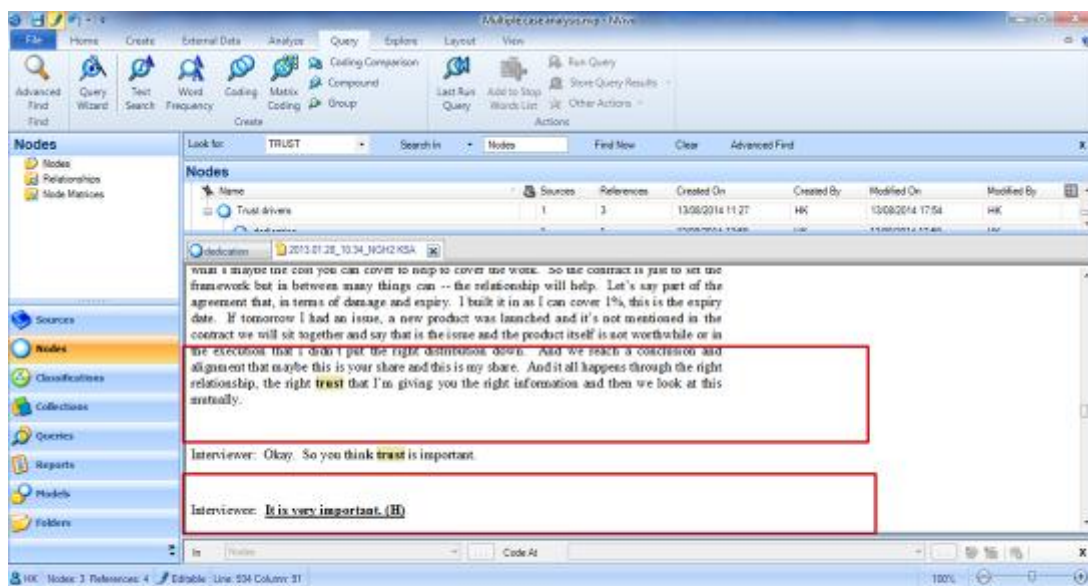
Screen shot NVivo - Proposition Coding

The below screen shot is taken from NVivo and shows, for example, the themes associated for P1 and P2 (secondary coding is used).



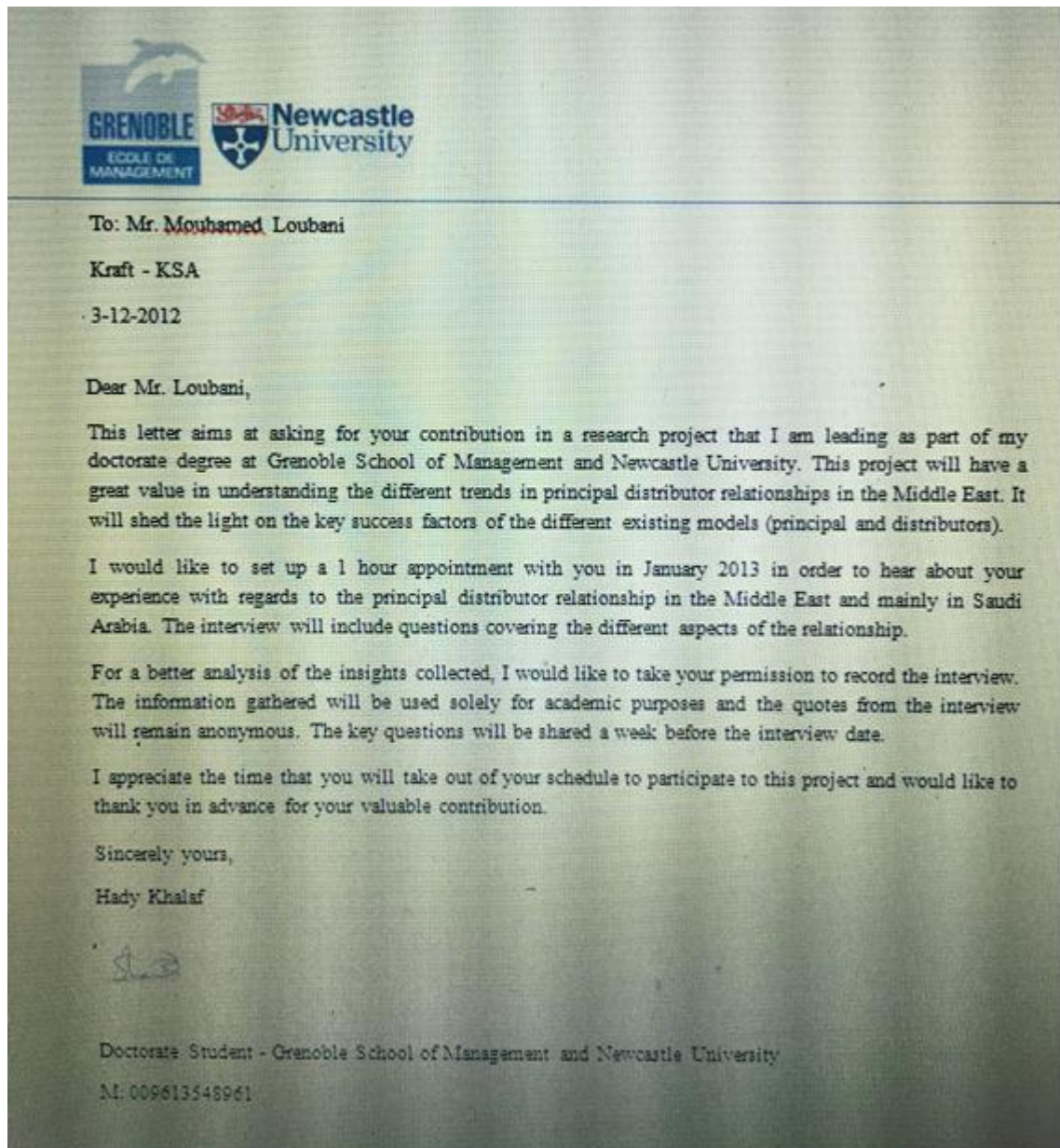
Screen shot NVivo - Thematic Coding

To analyse the key themes for each proposition, the researcher ran a query search in NVivo, which helped locate the theme that the researcher is interested in analysing, as

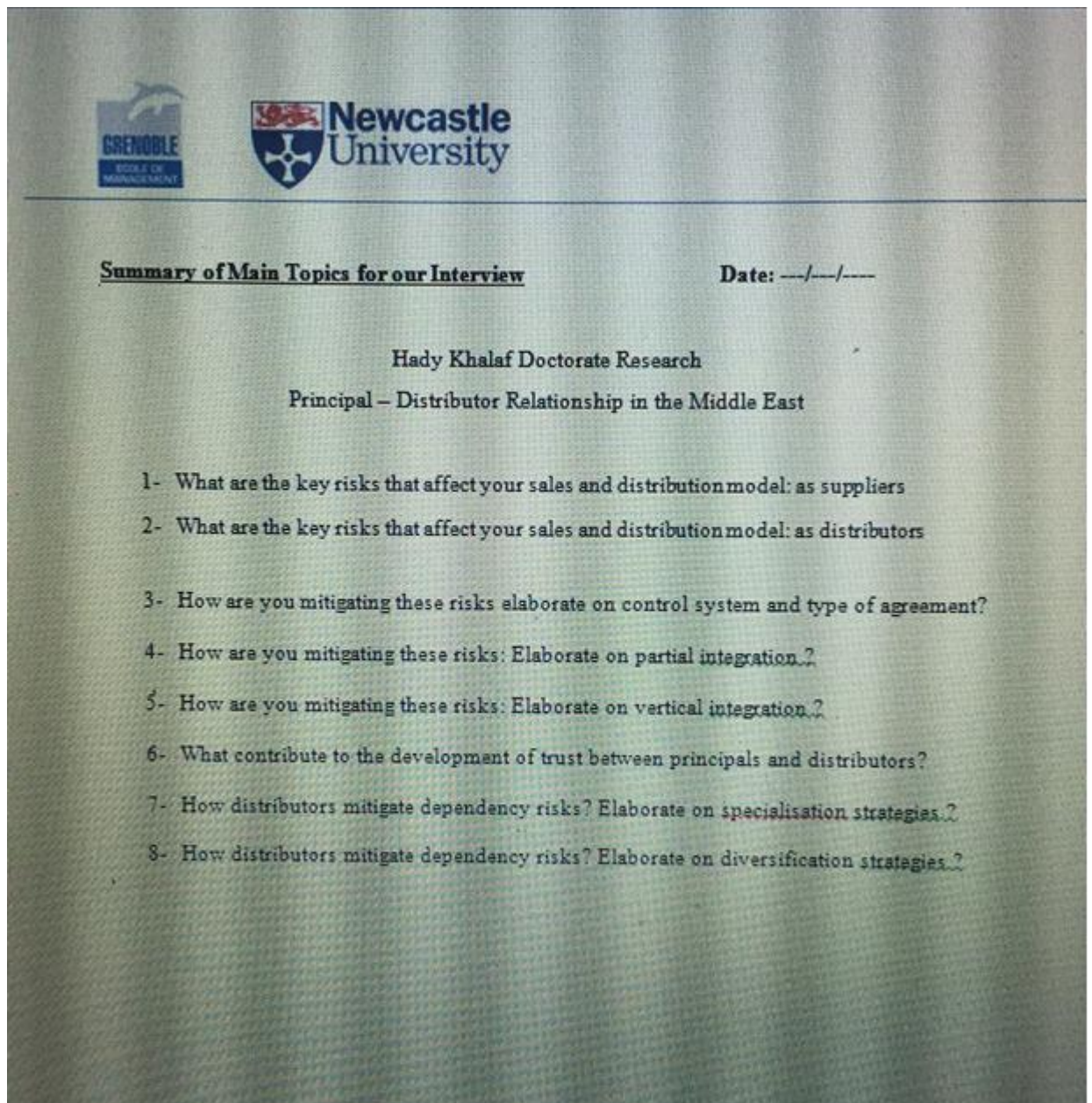


Screen shot NVivo - In-vivo coding and Scale Coding

III. Sample invitation letter sent to participants



IV. Summary letter sent of main topics to be discussed during interview



V. Sources of evidence summary table

P	Case	Informant	Question	Theme	Comment/Quotes			
P1	14	Business Development Director	What are the key risks that affect your sales and distribution model: as suppliers	Issue of Control	"When we [the supplier] were managing the business from a distance, we did not know what was happening...but when we deployed a Country Manager in KSA, he was able to see what was going wrong in the business. The friction with the distributor increased when we discovered that he was making higher margins by selling at prices higher than the recommended ones." (Interview, Supplier KSA).			
	15	General Manager			"We always thought that he had this number of vans, but when we started going into the details of the information we discovered that the number of vans was much lower than our expectations." (Interview, Supplier KSA).			
	6	CEO			"A distributor can say that he has a dedicated team but how can you make sure that this team is actually dedicated, how you can control it?" (Interview, Supplier UAE).			
	13	General Manager			"We were growing lower than market growth; our market share for the past two years is on downward trends." (Interview, Supplier KSA).			
	11	CEO			Alignment on objectives	"They [the distributor] were not focusing on the right channels. They were doing things without aligning with us, we had different agendas" (Interview, Supplier KSA).		
	14	Business Development Director		"Our [the supplier] agenda was to grow the business, his [the distributor] agenda was to sell as much as possible and with the least amount of costs incurred, to take as much marketing money as possible and improve his profit margin" (Interview, Supplier KSA).				
	11	CEO		"Competition is increasing, everyone is becoming more active in the market ... I [The Supplier] know that to improve my performance, I need to increase my coverage but the distributor is resisting investing in additional vans." (Interview, Supplier KSA).				
	14	Business Development Director		"You [the supplier] cannot divorce them [the distributor], even if you no longer love them. You still need them because the foreign investment law does not allow you to operate on your own." (Interview, Supplier KSA).				
	13	General Manager		Information Sharing		"Our previous distributor was simply refusing to give us [the supplier] detailed information ... We had visibility over the macro sales figures only ... but when we asked for more details, we were facing an unjustified resistance" (Interview, Supplier KSA).		
	12	Vice President				"If I am a distributor, for me information is power, and giving out this information is like giving out art of my power" (Interview, Distributor KSA).		
	8	Regional Sales Director				"If we [the supplier] know such information, there is a possibility that we use it against them, by challenging the way they do things." (Interview, Supplier UAE).		
	10	CEO				"We [the supplier] were giving the distributor a budget that has to be invested in the trade, but we did not have any visibility over how the money was being spent. The distributor refused to give us a copy of contracts with retailers; with the rise of modern trade and the continuous inflation of costs, we could no longertolerate such behaviour." (Interview, Supplier UAE).		
	14	Business Development Director				"The inability to control information means a difficulty in achieving an accurate forecast, which puts all the supply planning at risk... we sell food products with expiry dates in a vast market and in unconventional climatic conditions. How can we grow further if we are not able to forecast precisely?" (Interview, Supplier KSA).		
	9	General Manager				"If my supplier asks me to share information about costs, such as working on a certain project to improve efficiency, I do not mind sharing it if the benefits are mutual." (Interview, Distributor UAE).		
	4	Regional Sales Director				"I mean we expect our customers to be open to us and give us information, we must therefore understand when our suppliers ask information from us; we are their customers." (Interview, Distributor UAE).		
	11	CEO				Level of focus and dedicated capabilities		"We [the supplier] felt diluted in his [the distributor] portfolio. His main interest was to drive the beverage business while our interest was to grow our own business." (Interview, Supplier KSA).
	11	CEO						"We [the supplier] were growing by 15% in a market where we have the potential to grow by 40%." (Interview, Supplier KSA).
	11	CEO						"We feel like a small fish in a big ocean. The only thing that was dedicated to us was a channel we called Van Sales Operation, which was the only channel where we had certain control, vision, transparency ... In modern trade we do not have any focus and we were drowning in the distributor's vast portfolio." (Interview, Supplier KSA).
	6	Regional Sales Director		"I [the supplier] do not know very much about the coverage capability, the type of equipment that they use, the information systems they have, and how relevant their portfolio is. In our opinion, we would ideally look at having two distributors in a market like UAE, but with different focus portfolios; one would be very much impulse portfolios, and one would be the destination portfolio. That is very much what we are doing at the moment." (Interview, Supplier UAE).				
	12	Vice President		"We are aware that our suppliers need focus and dedication, we need to build our capability while making sure to have the right business model that makes each supplier feel important in our portfolio" (Interview, Distributor KSA).				

P	Case	Informant	Question	Theme	Comment/Quotes
P1	4	Regional Sales Director	What are the key risks that affect your sales and distribution model: as suppliers	Capability of sales teams and quality of execution	"Retailers in UAE realised that it's not about opening new stores, but rather about attracting more shoppers. In order to do so, they needed to achieve better profits to fund their growth." (Interview, Supplier UAE).
	8	Regional Sales Director			"There is a strategic need for collaboration between suppliers and retailers to exchange category and shopper expertise ... retailers rely on suppliers profoundly as they are the brand experts." (Interview, Supplier UAE).
	10	CEO			"Distributors who cannot cater to the needs of modern trade retailers in terms of capabilities and information systems will find no place in UAE in the future." (Interview, Supplier UAE).
	6	Regional Sales Director			"They [the distributors] feel privileged knowing everything about the customer... if we go and negotiate and try to build relationships with retailers, then why should we need them anymore?" (Interview, Supplier UAE).
	8	Regional Sales Director			"Because a distributor is fully representing your brand, you will not be taken seriously within the local retail environment. At times, distributors do not want you to speak to retailers because they are very protective and they want to hold on to this relationship as long as possible." (Interview, Supplier UAE).
	6	CEO			"The name of the game is: if we are not able to make that change ourselves and evolve with the retailers and deliver on their expectations, then there is a risk of being made obsolete." (Interview, Supplier UAE).
	6	CEO			"Distributor development is an important risk blocking us [the supplier] from acquiring the necessary capabilities to grow in UAE. We know that we have to either move to a more capable distributor whose cost is going to be higher, or invest in driving the capabilities of our current distributor, who we believe has an inefficient cost structure. We are now verifying our options." (Interview, Supplier UAE).
	11	Vice President			"If I'm getting the right quality of execution at the right cost, I will be meeting with the needs of my suppliers, otherwise I will be causing them issues in the market versus their competitors." (Interview, Distributor KSA).
	7	CEO			"Our suppliers do the marketing and we are their operational arm in the market. We have a responsibility to drive the competitiveness of our supplier's brands, they count on us in building physical availability as much as we count on them in building mental availability." (Interview, Distributor UAE).
	1	General Manager		Cases tolerating dyadic risks	"In traditional trade countries, you need a minimum amount of systems and infrastructure, because your operation is simplified. You are doing the basics. You are taking this package, putting it on the checkout counter or in the fridge, making sure the stock is available." (Interview, Supplier Iraq).
	5	Regional Sales Director			"We look at freshness, competition, the quality of the display, the range, are we overselling, or are we underselling? The whole operation is more complicated because you have done the fundamentals and you are moving beyond the sales operation." (Interview, Supplier UAE).
	9	General Manager			"In a traditional trade country, the salesperson is an order taker. But in a modern trade country like UAE, the salesperson is an order maker" (Interview, Supplier UAE).
	2	Country Manager			"Our distributor has to ensure proper distribution routes, reaching the 30,000 grocery stores in Iraq either directly or through wholesalers. He needs to invest in vans and manage the transactions from A to Z, and we are not anxious about how this is being done." (Interview, Supplier Iraq).
	1	General Manager			"We spend in trade offers, but our investments are negligible compared to investments in modern trade markets." (Interview, Supplier Iraq).
	3	General Manager			"If you ask me today whether we would go and invest US\$ 100 million in Iraq, my answer would be 'maybe not'. Why, because of the environmental risk factors in the country. I think that over the coming 10 years, the future prospect of distributors is very bright in Iraq because international suppliers will be very careful regarding the security of lives, their personnel, security of assets, and the security of cash." (Interview, Supplier Iraq).
2	Country Manager	"Our distributor acts as if he is the supplier in the country. When you go to the grocery and you ask about our products, they will tell you the name of the distributor, we do not mind that because they are representing us in the field" (Interview, Supplier Iraq).			
15	General Manager	"Priority number one for us is growth, we [the supplier] have brands that we think have the potential to grow by 15% to 17%, which is much higher than our current growth rates, and we will not allow our distributor to block us from meeting our growth ambition." (Interview, Supplier KSA).			
3	General Manager	"We absorb all the risks that they are not willing to absorb; it is a winning situation for them." (Interview, Distributor Iraq).			
P2	10	CEO	What are the key risks that affect your sales and distribution model: as distributors	Legal protection	"In the Gulf region, suppliers are legally obligated to work with distributors. If I want to set up my own sales force, I might not always be able to do so as I have to be tied up with a local distribution company." (Interview, Supplier, Middle East).
	14	Business Development Director			"It is like a Catholic marriage which makes it almost impossible to end by divorce, and too costly if divorce is being considered." (Interview, Supplier KSA).

P	Case	Informant	Question	Theme	Comment/Quotes
P2	7	CEO	What are the key risks that affect your sales and distribution model: as distributors	Legal protection	"Any multinational company must be in partnership with a local company that has a majority share of 51%, this protected us as distributors." (Interview, Distributor UAE).
	14	Business Development Director			"In KSA, we [the supplier] followed exactly what Case 13 experienced, and we even used the latter as an example to encourage our shareholders to exit the relationship with our existing distributor. We could not tolerate his behaviour anymore, and we needed to find a solution. I think that many other FMCG companies will follow, it is like a domino effect and distributors should truly consider these trends." (Interview, Supplier KSA).
	5	Regional Sales Director			"Our [the supplier] local partner is a silent partner; we manage the operations as if we were operating alone." (Interview, Supplier UAE).
	4	Regional Sales Director		"As long as we [the supplier] give an acceptable notice period to our distributor, there is no legal obligation to pay him a compensation fee. It all depends on the exit arrangement reached as well as our business ethics to ensure that we were fair till the very end." (Interview, Supplier UAE).	
	15	General Manager		Market know-how and threat of substitute	"We needed someone who knows the market and is familiar with the local culture" (Interview, Supplier KSA).
	11	CEO			"The Middle East represents a good share of our international business; there is a need to be physically present in the market." (Interview, Supplier KSA).
	12	Vice President			"It is not difficult for me [the supplier] to know what it would cost me to operate in UAE in KSA or any other country in the Middle East. I have teams comprised of individuals who used to manage the day to day operations in leading distribution companies in the Middle East. Now we know better than before." (Interview, Supplier Middle East).
	8	Regional Sales Director		"With the increasing pressure on costs and the change in the retail scene, we [the supplier] had to adapt our distributor margin to the actual situation in the market." (Interview, Supplier UAE).	
	14	Business Development Director		"Our distributors know how to sell, but with the evolution taking place, our expectations from our distributors have changed. They really need to know what kind of value they can add to our business." (Interview, KSA).	
	12	Vice President		"I used to work with ABC (supplier type of organization); this has helped me introduce new ways of thinking. I even coached my people in how suppliers operate and what the priorities are that matter for them." (Interview, Distributor KSA).	
	15	General Manager		Scale and risk absorption	"First, distributors with large scale have a cost advantage as they can spread their fixed costs over a bigger business, and second they have the negotiation advantage as they can go to the trade with a bigger portfolio." (Interview, Supplier KSA).
	11	CEO			"We [the supplier] want to work with someone who makes us feel important to his portfolio ... This is how we can draw his attention and dedication." (Interview, Supplier KSA).
	13	General Manager			"If you had asked me [the supplier] this question 15 or 20 years ago, I would have told you that I was obliged to outsource because it makes financial sense for me; it is not the case today as I have the scale to be on my own." (Interview, Supplier KSA).
	4	Regional Sales Director		"If we [the distributor] have the scale to absorb financial risks, it will be more risky if we keep outsourcing all the sales and distribution activities to a distributor. If our distributors have the scale, they cannot treat us with mediocrity anymore, regardless of our size". (Interview, Supplier UAE).	
	7	CEO		"We [the distributor] have access to capital; we offer our suppliers a risk free model in which we are absorbing the biggest share of the risk. But our suppliers have their growth ambitions, and to grow we need to give them enough focus and make them feel important in the way we allocate our resources and set our plans." (Interview, Distributor UAE).	
12	Vice President	Unpredictability of suppliers	"My supplier can decide at any point in time to put an end to the relationship, even if we are the best in town. They did it in other countries, and the possibility that they do it in KSA will always remain in our calculations, although we are on very good terms with them." (Interview, Distributor KSA).		
9	General Manager		"The second our supplier feels that we are not evolving with the market and we are not maintaining a level of capabilities that is up to the standards in the various trade channels, he might reconsider the relationship even if we are among the best in the market today." (Interview, Distributor UAE).		
5	Regional Sales Director		"It has been decided that we [the supplier] need to directly control the downstream supply chain activities; we do not find the need for distributors anymore." (Interview, Supplier UAE).		
P3			How are you mitigating these risks: Elaborate on control system	Dyadic risk mitigation: Agency Theory	
	1	General Manager		Basic Control System	"We used to deal with parallel import products from Syria and Jordan; some of our distributors in Iraq are also selling to other markets." (Interview, Supplier Iraq).
	3	General Manager		"Having more than one distributor adds a lot of complexities to the business. This might be the right solution in big countries like Egypt and Iran, but I do not see it in Iraq and definitely not in UAE." (Interview, Supplier Middle East).	

P	Case	Informant	Question	Theme	Comment/Quotes
P3	1	General Manager	How are you mitigating these risks: Elaborate on control system	Basic Control System	"We [the supplier] had two distributors; one was covering Baghdad and Erbil and the other was covering the remaining regions in Iraq. It was not the right go-to-market because some distributors were dropping their prices to sell more volumes outside their territories, so we decided to consolidate with one main distributor." (Interview, Supplier Iraq).
	2	Managing Director			"We signed a contract which specifies the margins that should be made, but whether the distributor is respecting the contract is another story." (Interview, Supplier Iraq).
	1	General Manager			"A distributor can benefit from this complexity in various ways and there is only little that we can do to control the distributor's action. We know that the contract alone does not provide enough assurance. However, our priority is not to control whether the distributor is making more money than he is supposed to, but to make sure that he has the prerequisites to grow the business." (Interview, Supplier Iraq).
	2	Country Manager			"Today we have recruited someone based in Iraq who manages the distributor on the ground versus us managing it remotely from Lebanon ... his role is to define our key priorities in Iraq, our four must-win battles in Iraq, and ensure that we're deploying all the actions. He also has a prime role in bringing market insights about competitors and customers." (Interview, Supplier Iraq).
	2	Country Manager			"The market manager adds value to the distributor business by agreeing on the efficient route to market strategy, bringing know-how and expertise to deploy the strategy, and demonstrating how the distributor can generate more sales by investing better in the business." (Interview, Supplier Iraq).
	1	General Manager			"The market manager is our ambassador in the market; he brings us market insight but more importantly, he gives us the 'why' behind our performance" (Interview, Supplier Iraq).
	1	General Manager			"Having a market manager allowed us to obtain information and access to the distributor's information systems. In the past, we did not have the visibility that we have today." (Interview, Supplier Iraq).
	1	General Manager			"The market manager had a prime role in transferring the yearly plans and building the capabilities of our teams." (Interview, Distributor Iraq).
	2	Country Manager			"The message from my CEO was clear: 'Go and implant our culture in the distributor's organisation. Let them deal with the trade the way we do'. I coach their teams, conduct weekly meetings with them to review objectives, align on plans and identify opportunities... I conduct frequent market visits with them to identify the gaps and give them feedback" (Interview, Supplier Iraq).
	1	General Manager			"Before we decide to place someone in Iraq, we need to make sure that the distributor with whom we are currently dealing will be our choice in the future." (Interview, Supplier Iraq).
	6	Regional Sales Director	Advanced control system		"In UAE, I am in favour of cost plus contracting as I believe that margin contracts (fixed price contract) will soon become obsolete." (Interview, Supplier UAE).
	14	Business Development Director			"In 2011, we decided to move to a cost plus contract because we had no visibility over the cost to serve structure of our distributor." (Interview, Supplier KSA).
	8	Regional Sales Director			"A cost plus contract does not necessarily mean looking for savings, but it's about a more effective allocation of costs to improve your service, to have better capabilities, and above all it drives your level of control far up. You have to be in a position of believing that it will drive growth." (Interview, Supplier UAE).
	7	General Manager			"A cost plus contract gives a supplier [the supplier] full visibility, but as the same time it leads him to absorb certain risks associated with cost inflation." (Interview, Supplier UAE).
	9	Regional Sales Director			"If we [the supplier] implement a cost plus contract, we will have more visibility over costs, and we will be more certain of what we want and what resources to deploy. We are going to do this together with our distributor; we will take inefficient costs out of our system and invest in value driving activities." (Interview, Supplier UAE).
	14	Business Development Director			"We told our distributor that a cost plus model means two things: 'you will disclose your costs, and we will reimburse you for your costs plus a certain margin'. When we asked them to share their cost structure, they resisted at first but then accepted to do so ... We then discovered that the actual costs incurred were much less than the costs we thought they had incurred." (Interview, Supplier KSA).
	7	CEO			"We need to agree together on the payroll and the number of employees, this is number one. Number two, we need to agree on the petrol cost and selling cost and track cost and warehousing cost and others. If we agree together on those cost components and on the yearly inflation, which is on increasing trends, then cost plus contract may work but this is debatable". (Interview, Distributor UAE).
	12	Vice President			"Many suppliers have people coming on assignments of two to three years, who want to demonstrate their innovative achievements by challenging the costs of their distributors on a daily basis, which is not healthy for the relationship; If they need visibility, we [the distributor] can give it to them without the need for a cost plus arrangement" (Interview, distributor KSA).
	12	CEO			"The distributor shared with us all the financial information, and we make investment decisions jointly. If there is room for optimisation, we propose our point of view, they present their view, and we reach an agreement together. Our information systems are integrated; we have access to all types of information." (Interview, Supplier KSA).
	9	Regional Sales Director			"Controlling costs has to be coupled with improving capabilities, recruiting higher levels of talent, investing in technology, investing in training, buying more vans, placing another 50 merchandisers...etc. You can make these decisions if they make more sense for the business" (Interview, Supplier UAE).
6	Regional Sales Director	"We need our distributor to take responsibility for growth, profitability, and cost savings. To engage distributors, a cost saving incentive has to be associated with a cost plus contract which will drive them to effectively seek cost optimisation opportunities." (Interview, Supplier UAE).			

P	Case	Informant	Question	Theme	Comment/Quotes	
P4			How are you mitigating these risks:	Partial Integration		
	13	General Manager	Elaborate on partial integration	Outsource Invoicing	"To control the selling price to trade, I have to either invoice directly to trade, or gain full access to the distributor's invoicing system" (Interview, Supplier KSA).	
	15	General Manager		Outsource Invoicing	"Direct invoicing to trade means managing and absorbing credit risks, something not all suppliers are willing to do." (Interview, Supplier KSA).	
	14	Business Development Director		Outsource Invoicing	"Some customers have a 45 days credit limit, while others operate on a 75 days credit limit. We do not want to bear those charges." (Interview, Supplier KSA).	
	9	Regional Sales Director		Outsource of Execution functions	"I [the supplier] consider myself as having 1,500 sales employees working for my brand who are financed by the distributor. If I want to run this operation myself, I have to hire 1,500 employees, pay them indemnities, manage their bonuses, and have a full human resources team on board to make sure that we are complying with local regulations...etc. Why would I do all that when I have someone who can do it on my behalf?" (Interview, Supplier UAE).	
	15	General Manager		Outsource Sales Execution	"The worst nightmare we have is related to employment compliance law. There is a big difference between having a team of 10 and a team of 100 in the market. Recruiting is not easy, and making sure that we are abiding by the law is not easy either, especially if we are dealing with a big team..." (Interview, Supplier KSA).	
	11	CEO		Outsource Logistics	"They have the infrastructure, and the know-how; this is where they can add value the most." (Interview, Supplier KSA).	
	4	Regional Sales Director		Integration of key account managers		"We [the supplier] handle the key accounts and we give the distributor all the rest. What does the rest comprise of? Grocers shops, wholesalers, and even supermarkets though not the big ones. So in my opinion, it depends on the country and on the weight of the modern trade business." (Interview, Supplier UAE).
	4	Regional Sales Director				"Carrefour looks at me [the supplier] as this guy who sells chocolate. I am powerful, because I represent that % of the chocolate market in UAE. If he sees me as the chocolate guy who represents a much lower % of the business, I am not that powerful and thus it is preferable that a distributor represents me." (Interview, Supplier UAE).
	13	General Manager				"We [the supplier] sign the contracts with major key customers and we decide how much we want to spend, depending on the targets set and the market's potential." (Interview, Supplier KSA).
	15	General Manager				"Controlling funds means controlling the sources of growth in a big share of the market, since modern trade is now on growing trends." (Interview, Supplier KSA).
	12	Vice President		Integrated planning		"We [the distributor] look together at how we are going to build the business for the future, what our challenges are, and what we are going to do about them." (Interview, Distributor KSA).
	9	Regional Sales Director				"If there is an idea with the marketing department, they are talking to each other on a daily basis. For me [the supplier], it does not matter who is creating the demand, where the idea is coming from, whether it's from the marketing guy or from the sales guy because they work together daily. So while a marketing guy might do a better job in Carrefour by understanding shopper profile and so on, he will pass the knowledge to the sales guy, who happens to be from the distributor side." (Interview, Supplier UAE).
	12	Vice President				"The sales director of our supplier came and told us that he wants us to invest in an additional 100 employees. We sat with him, looked at the benefits and expected return on this investment. We gave our feedback and aligned on the steps to go forward. By doing so, the supplier did not feel that we are over or under investing because we were mutually aligned on what to invest and why." (Interview, Distributor KSA).
	12	Vice President		Information system integration		"Our supplier is able to obtain whatever is required from our sales system. We deployed a joint S&OP process, which led us to discover that there is lot of cash tied up in our warehouses. We collaborated with our supplier to optimise our inventory levels, improve our cash flow, while providing them with fresher products in the market." (Interview, Distributor KSA).
	9	Regional Sales Director				"Our supplier helped us [the distributor] in orienting our plans to achieve better results. A promotion on Brand A can yield better results in certain areas than a promotion on Brand B, and we can only obtain this kind of information from our supplier." (Interview, Distributor UAE).
	9	Regional Sales Director				"We give them quarterly news on our brands, what is happening, we provide them with sales guidelines and competition news, and we share with them shoppers' data so that they are aligned on our sales strategies by channel and what we want to achieve with them on a monthly basis." (Interview, Supplier UAE).
	12	Vice President		Capability development		"We [the distributor] signed the contract with a the leading training companies in the Middle East, and we are now building our own training entity, which will provide full talent development programs from induction to functional trainings." (Interview, Distributor KSA).
	9	Regional Sales Director				"We [the supplier] have a dedicated training college. We attend all the trainings together with our distributors and we therefore develop and grow together." (Interview, Supplier UAE).
	9	Regional Sales Director		Sharing best practices and know how		"We [the supplier] tell them what their supply chain should look like, how their sales organisation can be designed, how they can optimise their route to market. This is all done based on sharing best practices with them, and in return we develop an efficient operation" (Interview, Distributor UAE).
9	Regional Sales Director	"We have talent exchange programs; for instance I worked at the distributor's offices on a special assignment in the past. We also receive people from the distributor working with us on special projects. By doing so, we enhance the integration of our organisations." (Interview, Supplier UAE).				

P	Case	Informant	Question	Theme	Comment/Quotes
P4	11	CEO	How are you mitigating these risks: Elaborate on partial integration	Dedicated capabilities and focus:Category	"You cannot have a distributor who is actually good at everything. Suppliers may prefer giving different components of the business to different distributors; milk business to Distributor A, confectionery business to Distributor B. The decision is driven by the core competencies of the distributor, and his willingness to show the supplier that he is giving the brands the necessary attention." (Interview, Supplier KSA).
	9	Regional Sales Director		Dedicated capabilities and focus:Channel	"The merchandisers of our distributors are dedicated for us, we are sure that they are spending 100% of their time on our products in the store, not on other products." (Interview, Supplier UAE).
	12	Vice President		Dedicated capabilities and focus:Regional	"We [the distributor] might not have strong presence in a specific region in KSA, so we must have to go and liaise with sub distributors to ensure that the supplier's products are available in all the regions; we invest in regional branches to cater for these sub distributors" (Interview, Distributor KSA).
P5			How are you mitigating these risks: Elaborate on vertical integration	Vertical Integration	
	4	Regional Sales Director	Elaborate on vertical integration	Integration of Key Account managers	"The integration of the key account manager is not just about having direct negotiation with the trade; it's about business development, joint business planning, category management, and so on." (Interview, Supplier UAE).
	5	Regional Sales Director			"It is very unlikely that our distributor will do a better job than we do in key account management today. With the level of expertise that we have or can attract, there is no way he can do better unless we, as a company, admit that we cannot have such expertise in-house." (Interview, Supplier UAE).
	4	Regional Sales Director			"Distributors have limited capabilities to attract good people. That was acceptable in the past but it is not the case today as I [the supplier] need to have a competent person who knows how to negotiate with Carrefour or Spinneys, for example. This is how I can optimise my spending and ensure that I am receiving the right return." (Interview, Supplier UAE).
	4	Regional Sales Director		Outsource of logistics	"You [the supplier] have to make sure that you have a good grasp of the value added responsibilities like key account management, and be able to let go of others like warehousing and delivery, when there is a cheaper way of doing it" (Interview, Supplier UAE).
	5	Regional Sales Director			"I [the supplier] will give you an example; today if I want to add one delivery van in Abou Dhabi and we are now in February, I have to wait till May to request for additional CAPEX. The process will take time and approval would not be obtained before October or November. I can then buy the van, but it will take me another few months before the process is complete and the van is delivered to us. On the other hand, I can ask my distributor to purchase the van over the phone by showing him the added value this will bring to his business and the return it will generate. The van will be bought in a month's time at latest." (Interview, Supplier UAE).
	14	Business Development Director		Integration of invoicing	"I [the supplier] do not have to worry any more about whether the distributor is invoicing at higher prices and consequently achieving higher margins. I invoice directly to trade and I control the entire margin structure." (Interview, Supplier KSA).
	5	Regional Sales Director			"If the financial charges and the additional costs are 2% and we are able to save 2% or even 3% by controlling the price structure, the financial risks are thus diminished" (Interview, Supplier UAE).
	13	General Manager		Integration of execution functions	"Merchandising is a core function that gives you control over the quality of your execution and your availability at point of sale. Third party merchandising is more difficult to manage and motivate. In reality, you have a lot of employee turnover in third party merchandizing, which means you have to retrain and re-evaluate and track and so on. It's a big headache." (Interview, Supplier KSA).
	5	Regional Sales Director			"Having a bigger sales force means having a bigger human resources team to manage the large number of employees. It is worth considering the benefits achieved in terms of efficiency and focus." (Interview, Supplier UAE).
	13	General Manager		Information integration	"We [the supplier] have installed the SAP system, which enables us to control all the information from shipment to invoicing; it is also integrated to the WMS (Warehouse Management System) so we know we control all the sales and supply processes." (Interview, supplier KSA).
	4	Regional Sales Director			"As the business grows and becomes more complex, the control of the quality of the execution across channels becomes important. We track quantitative KPIs, but recently we started setting qualitative targets." (Interview, Supplier UAE).
	7	General Manager			"We are coming closer and closer to the information available. It is just the immediacy of it. You want to know what's on the shelves in the marketplace every day, you want to know your shelf share, you want to know what your distribution is, and you want to know how to make better decisions and react better." (Interview, Supplier KSA).
	8	Regional Sales Director			"You have to be able to capture what is beyond the numbers, whether it's insights on pricing, planograms, or competitor information. We are in the FMCG business, which is about speed, so the information has to be quick, relevant, and insightful. Personally, I think this is where we have to assist our distributors." (Interview, Supplier UAE).
	4	Regional Sales Director		Governance structure of vertical integrated models	"You have the choice of being a service provider and completely divorce the concept of account management. You just let it go and do service providing. You're like a logistics operator, and you just let us have a direct relationship with the trade, it's a different business model with different margins. Your investment is just in facilities and in efficiencies. You will lose part of the margin cake, but you do not have to carry the same level of overhead that you would otherwise need." (Interview, Supplier UAE).
5	Regional Sales Director			"We [the supplier] look at small companies who can perform a specialised service. For instance, we are now seeking distributors specialised in pharmacies, schools, and the food service channels. These represent small channels and are better outsourced to distributors." (Interview, Supplier UAE).	
15	General Manager	Critical scale	"You [the supplier] need to be a business with US\$ 150M turnover to start thinking about operating on your own in KSA." (Interview, Supplier KSA).		

P	Case	Informant	Question	Theme	Comment/Quotes
P6	1	General Manager	What contributes to the development of trust between suppliers and distributors	Economic rewards:	"We ask our distributor to absorb all the risks in Iraq. How can we motivate him to do that if we are not compensating with an acceptable margin?" (Interview, Supplier Iraq).
	11	CEO		Fair Margins	"I [the supplier] am with a cost plus contract because it covers the costs incurred by my distributor. Because we might not agree on how costs are calculated, we opted for a margin contract that is close to the market average, and in return the distributor is giving us the necessary capabilities to meet with the competitive environment" (Interview, Supplier KSA).
	9	Regional Sales Director		Economic rewards:	"We [the supplier] do not differentiate between employees; they receive the same learning. We have one content and we share the same message, so that the distributor's employees become qualified like our employees and thus operate similarly, which is a dream come true." (Interview, Supplier UAE).
	4	General Manager		Investment in human	"We have an organisation that fits the need of a modern trade market. We always refresh our team with fresh talent to show our suppliers that we are very active on people related topics; we know that this is important for them" (Interview, Supplier UAE).
	9	General Manager		Economic rewards:	"Due to our fully automated best in class warehouses we were able to improve our service level by 30%. We want to make sure that we are offering the best storage conditions that will benefit our suppliers and any other company seeking logistical services." (Interview, Distributor UAE).
	15	General Manager		Investment in physical assets	"If we do not want to invest in logistics this does not mean that logistics is not important to us. When our distributors seek state of the art logistical infrastructure, they are indirectly telling us that they care about our products." (Interview, Supplier KSA).
	12	Vice President		Economic rewards: Investment in systems	"They can access our system from their offices through a web EDI interface, they basically see everything." (Interview, Supplier KSA).
	14	Business Development Director		Non-economic rewards: Transparency	"Transparency is important in the development of trust, specifically in a context where information is abundantly available everywhere and in different forms." (Interview, Supplier KSA).
	9	General Manager			"We [the distributor] are clearly aligned on the objectives of our supplier in the market and we are aware that we need to reinforce our capabilities to meet the needs of our supplier. As long as the supplier shares with us the why and how, it is enough." (Interview, Distributor UAE).
	1	General Manager		Non-economic rewards: Value transfer	"Many multinational companies have values that can be found on their websites, but only a few are able to apply them in reality." (Interview, Supplier Iraq).
	12	Vice President			"It tells us [the distributor] that our supplier will support us in good times and bad times. We celebrate success together; in fact we are going to South Africa tomorrow to celebrate our achievements in 2012. ... We identify solutions together; we share certain risks, we are now in a discussion to see how we can minimise the financial impacts of certain laws set by the government." (Interview, Distributor KSA).
	12	CEO			"The model we [the supplier] have in KSA is not a model that we use exclusively in KSA. Given that one of our values is mutuality, or win-win, if we feel that the distributor is making too much money, then we intervene and we say: 'You just have to be more mutual and give back'. Similarly, if he is not making enough money, we intervene to make sure we dissect his income statement to find inefficiencies, or we decide to sacrifice some of our profits to compensate his margins." (Interview, Supplier KSA).
	9	Regional Sales Director			"Who said that integrating certain capabilities means we can do a job better than our distributor?" (Interview, Supplier UAE).
	12	Vice President		Non-economic rewards: Quality of the team managing the relationship	"It's all about synergy and day to day harmony." (Interview, Distributor KSA).
	12	Vice President		Non-economic rewards: Long term orientation	"I do not expect to achieve the return on my investments tomorrow. I know that I have to pay higher salaries than multinational companies to attract good calibre employees, but I believe that these investments will pay off in the future." (Interview, Supplier KSA).
	6	Regional Sales Director		Non-economic rewards: Long term orientation	"When distributors start creating friction because they only look at how much money they will make this year, it is then when the relationship starts taking undesired routes for everybody." (Interview, Supplier UAE).
11	CEO	Reassess relationship: Lack of focus	"It is normal that they obtain more focus, they represent 85% of his business, but we [the supplier] want focus as well." (Interview, Supplier KSA).		
15	General Manager		"We [the supplier] know that a dedicated structure will cost us more, we agreed to increase the distributor margin and he deployed a dedicated sales force for our business in return." (Interview, Supplier KSA).		
6	Regional Sales Director	Reassess relationship: Lack of trust in	"We are now consolidating our distributors; we want to move from six to two distributors. The distributor who proves incapable of driving our category share in UAE will be phased out." (Interview, Supplier UAE).		
10	CEO		"To gain back our trust, he [the distributor] simply needs to build our confidence in his capabilities." (Interview, Supplier UAE).		

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	11	CEO		Fair Margins	"I [the supplier] am with a cost plus contract because it covers the costs incurred by my distributor. Because we might not agree on how costs are calculated, we opted for a margin contract that is close to the market average, and in return the distributor is giving us the necessary capabilities to meet with the competitive environment" (Interview, Supplier KSA).
	9	Regional Sales Director		Economic rewards:	"We [the supplier] do not differentiate between employees; they receive the same learning. We have one content and we share the same message, so that the distributor's employees become qualified like our employees and thus operate similarly, which is a dream come true." (Interview, Supplier UAE).
	4	General Manager		Investment in human	"We have an organisation that fits the need of a modern trade market. We always refresh our team with fresh talent to show our suppliers that we are very active on people related topics; we know that this is important for them" (Interview, Supplier UAE).
	9	General Manager		Economic rewards:	"Due to our fully automated best in class warehouses we were able to improve our service level by 30%. We want to make sure that we are offering the best storage conditions that will benefit our suppliers and any other company seeking logistical services." (Interview, Distributor UAE).
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	12	Vice President		Value transfer	"It tells us [the distributor] that our supplier will support us in good times and bad times. We celebrate success together; in fact we are going to South Africa tomorrow to celebrate our achievements in 2012. ... We identify solutions together; we share certain risks, we are now in a discussion to see how we can minimise the financial impacts of certain laws set by the government." (Interview, Distributor KSA).
	12	CEO			"The model we [the supplier] have in KSA is not a model that we use exclusively in KSA. Given that one of our values is mutuality, or win-win, if we feel that the distributor is making too much money, then we intervene and we say: 'You just have to be more mutual and give back'. Similarly, if he is not making enough money, we intervene to make sure we dissect his income statement to find inefficiencies, or we decide to sacrifice some of our profits to compensate his margins." (Interview, Supplier KSA).
	9	Regional Sales Director			"Who said that integrating certain capabilities means we can do a job better than our distributor?" (Interview, Supplier UAE).
	12	Vice President		Non-economic rewards: Quality of the team managing the relationship	"It's all about synergy and day to day harmony." (Interview, Distributor KSA).
	12	Vice President		Non-economic rewards: Long term orientation	"I do not expect to achieve the return on my investments tomorrow. I know that I have to pay higher salaries than multinational companies to attract good calibre employees, but I believe that these investments will pay off in the future." (Interview, Supplier KSA).
	6	Regional Sales Director		Non-economic rewards: Long term orientation	"When distributors start creating friction because they only look at how much money they will make this year, it is then when the relationship starts taking undesired routes for everybody." (Interview, Supplier UAE).
	11	CEO		Reassess relationship: Lack of focus	"It is normal that they obtain more focus, they represent 85% of his business, but we [the supplier] want focus as well." (Interview, Supplier KSA).
	15	General Manager			"We [the supplier] know that a dedicated structure will cost us more, we agreed to increase the distributor margin and he deployed a dedicated sales force for our business in return." (Interview, Supplier KSA).
6	Regional Sales Director	Reassess relationship:	"We are now consolidating our distributors; we want to move from six to two distributors. The distributor who proves incapable of driving our category share in UAE will be phased out." (Interview, Supplier UAE).		
10	CEO	Lack of trust in	"To gain back our trust, he [the distributor] simply needs to build our confidence in his capabilities." (Interview, Supplier UAE).		

P	Case	Informant	Question	Theme	Comment/Quotes
P7	9	General Manager	How distributors mitigate dependency risks?	Geographical Expansion	"It would be a loss if we do not invest our know-how in other countries" (Interview, Distributor UAE).
	1	General Manager	Elaborate on diversification strategies	Geographical Expansion	"In a modern trade country, we are not able to provide much added value as our competitive advantage is limited to logistics but in traditional trade countries this is where our services are needed the most." (Interview, Distributor Iraq).
	7	CEO		Backward integration	"The only way to eliminate our dependency on suppliers is by becoming a supplier ourselves." (Interview, Distributor UAE).
	8	CEO		Backward integration	"We lost the distribution of these brands in UAE, but the impact was very minimal because we were able to compensate part of the loss with our own private label brands" (Interview, Distributor UAE).
	13	General Manager		Backward integration	"The investment capabilities of the distributor are very high; they are not expected to have the know-how as we have full management control in the joint venture, they just provide the investment in CAPEX, and we manage." (Interview, Supplier KSA).
	8	CEO		Backward integration	"Suppliers are unpredictable; they can come to us at any point in time, thank us for doing business together, and leave, like what happened with us with "YZA". Because we were well prepared with our manufacturing businesses, the impact was minimal." (Interview, Distributor UAE).
	7	CEO		Forward integration	"With the on-going increase in retail power, venturing into retail is not a bad option." (Interview, Distributor UAE).