

# Exploring Retailer-Manufacturer Ethical Relationships

R. D. Sharma<sup>1</sup>, Bodh Raj Sharma<sup>2</sup>

<sup>1</sup>Chairman, J&K BOPEE, Jammu and Kashmir State, India. Email-id: ramjirdsharma@rediffmail.com

<sup>2</sup>Assistant Professor, Department of Commerce, University of Jammu, Jammu, India. Email-id: brbral@rediffmail.com

## ABSTRACT

The retailers and manufacturers work in collaboration for their mutual interest as well as for the consumers they serve. As a product passes through several hands before reaching to consumer, but sometimes manufacturers sell directly or through the retailers without involving other middlemen. The producers usually sell directly to retailers through their salesmen who take orders from retailers and immediate delivery of products is made to them at their retail outlets. It is an obligation on the part of retailers to behave ethically in their dealings with their manufacturer. They are ethical when they behave fairly, honestly, sincerely and in a sense of truthfulness and responsiveness. This paper empirically examines the perceptions of manufacturers about ethical practices of retailers from the data gathered from manufacturers supplying merchandise directly to the retailers in Jammu city. The reliability was duly assessed with Cronbach alpha and Exploratory Factor Analysis was applied for data purification. The finding indicate retailers as moderately ethical in most of practices but unethical in terms of payments of bills on time and of exact amount. The study is valuable for researchers, retailers, manufacturers and policy makers.

**Keywords:** Ethics, Relationship, Wholesaler, Retailer, Distribution chain

## 1. CONCEPTUAL BACKGROUND

The retailers and manufacturers work in collaboration for their mutual benefits as well as for the consumers they serve. Through such collaboration, they become more responsible in adjusting product assortment, promotion efforts and effective pre and post sales services. Improved store arrangements build stronger consumer loyalty for stores that carry the right assortment of always-available goods, and for brands that provide the right offers in the right stores (Fynes and Voss, 2002; Humphreys et al., 2001 and Gill and Allerheiligen, 1996). As goods pass through several hands before they reach consumer, sometimes manufacturers sell directly or through the retailers without involving other middlemen (Wilson, 1995, Ganesan, 1993). The producers sell goods to retailers who in turn sell to the ultimate consumers (Weitz and Jap, 1995) and this channel is more suitable under the conditions when goods are of perishable nature and cater to the needs of local market such as milk, bread and other food items and when the retailers are big in size of their business and buy in bulk but sell in smaller units directly to the consumers. The producers usually sell directly to retailers through their salesmen who take orders from retailers and immediate delivery of products is made to them at

their retail outlets. For the manufacturer, it is beneficial as it reduces the cost of distribution (Arbuthnot, 1997 and Weitz and Sandy, 1995) by eliminating wholesalers. On the other hand, there are no ordering and transportation costs to the retailers (Murry and Heidi, 1998 and Dwyer et al., 1987). It is an obligation on the part of retailers to behave ethically in their dealings with manufacturers (Whysall, 1998). They seem to be ethical when they behave fairly, honestly, sincerely and in a sense of truthfulness and responsiveness (Whysall, 1995) which in turn fosters parties' trust, commitment, loyalty and image of the manufacturer's products along with retail outlets (Kujala, 2001; Whysall, 2000 Mallen, 1996 and Walters, 1989). There is gap in literature on the present theme and this study has been conducted to explore the retailers - manufacturers ethical relationships and bridging the gap in literature.

## 2. OBJECTIVES

1. To explore the ethical relationships in retailers and manufacturers.
2. To examine the perceptions of manufacturers about ethical retail practices.

- To identify the dimensions of retailer- manufacturer ethical relationships.

## 2.1 Methodology

Both quantitative and qualitative approaches were used to make the study more exhaustive, relevant and valid. The quantitative approach includes the preparation of a schedule. The schedule was developed specifically for the study under reference by reviewing the needed literature (Kujala, 2001; Whysall, 2000, 1998 and 1995) and discussion with the experts on the subject. The schedule comprised of, 9 items of general information and 37 other items based on five point Likert scale ranging from 5 to 1, where 5 means strongly agree and 1 means strongly disagree ( $5 < \dots < 1$ ). The general information comprised of the type of products, number of employees, monthly sales and profit of the manufacturers, being selected as respondent. All other items represented the ethical values of retailers in their dealings with manufacturers.

The qualitative approach also applied to make the study more significant as its aim is to explore the ethical relationships between retailers and manufacturers. It was carried through an in depth face to face interviews of the respondents with freedom to express about these relationships.

**Table 1:** Respondents' Profile

<i>Variables</i>	<i>N</i>	<i>%</i>	<i>Variables</i>
Type of Products			Sales
Milk	02	06	Median: Rs 60,00,000
Oil	03	09	Range (79,80,000)
Steel	05	16	Minimum: Rs 20,00,000
Others	22	69	Maximum: Rs 1,00,00,000
Employees			Profit
0-10	13	40	Median Rs 10,00,00
11-20	05	16	Range (Rs 29,70,000)
21-30	04	13	Minimum: Rs 30,000
Above 30	10	31	Maximum: Rs 30,00,000

## 2.2 Data

The data were obtained from the manufacturing firms selling goods directly to the retailers. On the whole, a list of 40 manufacturing firms functioning in different parts of Jammu city was prepared. All of them were approached but the response was available from 32 manufacturers

with a response rate of 80%. Among the total respondents 6% deal in milk products, 9% in oil, 16% in steel products and rest to the other types of products. About 40% of the respondents employ upto 10 workers. The monthly sale of the respondents ranges from Rs 20,00,000 to Rs 1 crore and profit ranges from Rs 30,000 to Rs 30 lakhs (Table 1).

## 2.3 Reliability and Validity

To check the reliability, i. e., degree of consistency between multiple measurements of a construct, (Hair et al., 2009, p. 161), Split half and Cronbach alpha have been worked out (Malhotra, 2008, p. 285) by dividing the respondents into two equal halves. The data found to be reliable as mean values of both halves were quite satisfactory (Group I = 3.64 and Group II = 3.32, Table 2). Moreover, Cronbach Alpha values also proved reliable for all factors (Table 4). Similarly, the extent to which a scale or set of measures accurately represent the concept under review can be assessed in terms of content, convergent, discriminant measures (Hair et al., 2009, p. 161). The Content validity has been worked out by reviewing the literature and discussions with the experts and researchers working on similar topics. Convergent validity (the degree to which two measures of the same concept are correlated) was found to be satisfactory (Malhotra, 2008, p. 286) as the correlations between items were significant and their values have been  $> 0.5$ . Moreover, communalities of all the items came above 0.5, also proving convergent validity. Discriminant validity (the degree to which two conceptually similar concepts are distinct) examined through correlation between two constructs which should be below 0.3. It has been proved as the correlations between most of the constructs were  $< 0.3$ .

**Table 2:** Split Half Reliability

<i>Groups</i>	<i>Mean</i>
Group I	3.64
Group II	3.32

## 3. EXPLORATORY FACTOR ANALYSIS

The technique of factor analysis has been used through Statistical Package for Social Sciences (SPSS, 17 Version) with Principal component analysis along with varimax rotation. Factor analysis examines the underlying patterns or relationship for condensing the total data into minimum meaningful factors (Hair et al., 2009, p. 128). The items

**Table 3:** Factor Analysis

<i>Rounds</i>	<i>Variance Explained</i>	<i>Items Emerged</i>	<i>No of Factors Extracted</i>	<i>Iterations</i>	<i>No of Items Deleted</i>	<i>KMO</i>	<i>Bartlett</i>
1	81.95	36	9	22	1	-	-
2	82.90	35	9	17	4	-	-
3	80.44	31	8	10	1	-	-
4	78.19	30	7	08	2	-	-
5	79.68	28	7	10	1	.552	944.39
6	77.47	27	6	09	-	.578	930.33

having factor loading less than 0.5 and Eigen value less than 1 were ignored (Hair et al., 1995). Finally, 27 items clubbed into six factors with 77.47 percent of variance explained.

### 3.1 Empirical Findings

With application of factor analysis, the data converged into six factors with 77.47% of variance explained (Table 3). The six factors are F1 (Fairness), F2 (Billing), F3 (Out dated products), F4 (Gifts), F5 (Pricing) and F6 (Mutual interest). Each factor is discussed in detail as under:-

**Factor 1 (Fairness):** Few retailers purchase merchandise directly from manufacturers, as the salesmen of the manufacturers take orders from retailers and delivery is made to the retailers at their stores. This factor comprised of items such as, 'responsible', 'satisfied from retailers', 'sincere', 'respectful', 'helpful', 'space to products in retail store', 'no deception', 'commitment', 'honest', 'loyal', 'long term relations', 'humble', 'straight forward', 'fair business practices', 'keeping of promises' and 'trustful'. The overall factorial mean value (3.60) indicates moderate level of ethical values being practiced by retailers in dealings with manufacturers. Majority (91%) of the total respondents found satisfied (3.76) with retailers as they get due respect (3.72) and felt them honest (3.74) in their dealings with them. About 80% of them found retailers responsible (3.63), humble (3.69) and loyal (3.59) and provide needed space to manufacturers' products in their retail outlets (3.75). Further, retailers develop long term relations with manufacturers (3.59) which help them in terms of more margins and other assistance like reimbursement of promotion and transportation costs (Murry and Haidy, 1998). Moreover, about 70% of the respondents find retailers doing fair business as they keep their promises (3.47), remain straightforward (3.52), committed and do not deceive (3.53). However, the mean values are not so high indicating retailers being not highly ethical (Table 4).

**Factor 2 (Billing):** Retailers purchase merchandise from manufacturers mostly on credit basis and are required to make payments within the stipulated period as agreed upon. This factor comprised of three items, viz. 'payments of bills on time', 'exact amount as agreed', 'no irritation for billing'. The factor loadings range from 0.950 to 0.526. About 60% of the total respondents found retailers delaying the payments in the stipulated time period and make payments quite late on one excuse or another to them (2.81). They viewed retailers as unethical in terms of making payments on time, which creates serious problems for the manufacturers who have to make prompt payments to the suppliers and sometimes even advance payments for getting the regular supply of goods. About the same percentage of respondents (59%) experienced retailers paying less amount as agreed upon (2.81) on the promise that they would make the payment as and when they get from customers to whom they have sold goods on credit.

**Factor 3 (Out-dated Products):** This factor comprised of items, 'out dated products' and 'supply of required information' with factor loadings of .838 and .823 respectively. One of the most important issues between the manufacturer and a retailer is regarding out dated products as some goods become out dated in the retail outlets due to less demand, change in consumer's taste and preferences, product substitutes in the market. It is unethical on the part of retailers to sell the outdated products to ultimate consumers. The manufacturers, in fact, have made provisions for the retailers to return the out dated products as soon as possible so that they can either be recycled or disposed off by the manufacturers because passing on out dated products prove to be unsafe, unhygienic and risky for the consumers as well as these products tarnish the image of the manufacturers and retailers in the eyes of the consumers and public at large. About half of the respondents found retailers returning the goods (3.44) within the period allowed by the manufacturers.

**Table 4:** Factorial Profile of Ethical Retail Practices: Manufacturers' Perspective

Variables	M	SD	FL	C	EV	VE	CA
<b>F1 Fairness</b>	<b>3.60</b>	<b>0.10</b>			12.13	41.27	.966
Responsible	3.63	1.01	0.945	.952			
Satisfied from retailers	3.76	0.81	0.911	.925			
Sincere	3.59	0.98	0.878	.892			
Respectful	3.72	0.89	0.856	.925			
Helpful	3.50	0.80	0.829	.840			
Space to products	3.75	0.80	0.826	.898			
No deception	3.53	0.76	0.825	.736			
Committed	3.58	0.87	0.823	.767			
Honest	3.74	0.79	0.797	.795			
Loyal	3.59	0.98	0.795	.803			
Long term relations	3.59	1.07	0.791	.775			
Humble	3.69	0.90	0.783	.664			
Straight forward	3.52	0.90	0.769	.728			
Fair business practices	3.53	0.94	0.706	.602			
Keeping of promises	3.47	0.92	0.697	.698			
Trustful	3.44	1.27	0.643	.643			
<b>F2 Billing</b>	<b>2.93</b>	<b>0.20</b>			2.28	10.22	.832
Payments of bills on time	2.81	1.47	0.950	.928			
Exact amount as agreed	2.81	1.53	0.942	.934			
Not Irritable for billing	3.16	1.22	0.526	.692			
<b>F3 Out Dated Products</b>	<b>3.69</b>	<b>0.35</b>			1.979	7.07	.600
Outdated products	3.44	0.91	0.838	.781			
Information	3.94	0.44	0.823	.762			
<b>F4 Gifts</b>	<b>3.43</b>	<b>0.06</b>			1.694	6.59	.655
Printed price	3.47	0.98	0.739	.743			
Excessive gifts	3.38	1.21	0.715	.692			
<b>F5 Pricing</b>	<b>3.60</b>	<b>0.53</b>			1.527	6.17	.627
Not forcing for high prices	3.97	1.06	0.804	.685			
No threat for other products	3.22	1.07	0.658	.674			
<b>F6 Common Interest</b>	<b>3.06</b>	<b>0.75</b>			1.301	6.15	.612
Mutual interest	2.53	0.98	0.825	.774			
Adequate margins	3.59	1.10	0.656	.692			
Grand M, SD ,VE and CA	3.48	0.33				77.47	<b>.920</b>

\* M= Mean, SD= Standard Deviation, FL= Factor Loadings, C= Commonalities, EV=Eigen values, VE= Variance Explained and CA= Cronbach Alpha

**Factor 4 (Gifts):** This factor has two items, viz., 'printed price' and 'excessive gifts'. Manufacturers fix the price of the products and instruct the retailers to charge the printed price. About 75% of the total respondents found retailers charging printed price (3.47) and about the same percentage of respondents experienced retailers not demanding excessive gifts for keeping more merchandise in the retail store (3.38). In fact, manufacturers offer gifts at their own will as they feel it necessary for business

relationship and keeping into consideration the needs of the retailers.

**Factor 5 (Pricing):** This factor has two variables, viz., 'not pressurising for setting high prices' and 'no threat for keeping other manufacturers' products'. It is unethical on the part of the retailers to pressurise the manufacturers for setting the higher price for enjoying good margin. For more margins retailers do communicate to the manufacturers that if adequate margin is not available, they will shift to

other manufacturers. However, the present study reveals retailers not pressurising manufacturers for setting higher prices of the product and in Jammu retailers do not have such dictating position over the manufacturers regarding price fixation (3.97).

**Factor 6 (Mutual Interest):** This factor has two items, viz., 'mutual interest', and 'adequate margins' with factor loadings of .826 and .656 respectively (Table 7.4) along with 6.15% of variance explained. The retailer - manufacturer relations can become strong if both see mutual interest of each other and retailers get adequate margin for selling the manufacturers' products. About 69% of the total respondents experienced retailers not focusing on mutual interest as they see their own interest first and thereafter interest of manufacturers (2.53). About 81% of the total respondents agreed to have given adequate margins to the retailers for selling their products (3.59).

On the whole, the manufacturers viewed retailers ethical in many aspects like their fair dealings, pricing, etc. but at the same time found retailers unethical in terms of payments of bills as they delay the payments sometimes for many months causing a serious problems for the manufacturers for payments to suppliers.

#### 4. CONCLUSIONS AND FUTURE RESEARCH

The present study is confined to the perceptions of manufacturers about ethical retail practices in Jammu city and the future research should cover more geographical areas. A comparative study of perceptions of wholesalers and manufacturers about ethical retail practices can also be done.

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