

EDIFYING RETAILER-WHOLESALE ETHICAL RELATIONSHIP: A BASIS FOR GOOD GOVERNANCE IN RETAIL SECTOR

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Abstract Retailers are dependent upon wholesalers as the latter provide the regular and uninterrupted supply of merchandise to the former even sometimes on credit basis. The retailers are, thus, expected to maintain sound relations with wholesalers on the basis of ethical retail practices. In fact, in the extant literature there is not even a single study on perceptions of wholesalers about ethical retail practices. This study is, thus, an endeavour to bridge the gap in extant literature on retailing ethics. This piece of work explores empirically the retailer - wholesaler ethical relationships for good governance in retail sector empirically. The study is based upon the data obtained from seventy wholesale firms from Jammu city in J&K through an instrument. The wholesalers viewed retailers ethical in most of the issues except untimely payments of bills and even payment of less amounts as agreed upon, which creates severe problem for the wholesalers who are ultimately liable to manufacturers. The study shall be highly useful for business concerns, retailers, wholesalers, and government for the policy guidelines and potential researchers for new thrust.

Keyword: Ethics, Wholesalers, Retailers, Demographics, Merchandise

INTRODUCTION

The area that has been less focused by the researchers is retailer-wholesaler ethical relationships (Sharma, 2014). The retailers mostly acquire merchandise from wholesalers for reselling the same to the ultimate consumers (Lusch & Stephen, 1998). Wholesalers and retailers are the two important components in the whole distribution chain of marketing of products and services (Mallen, 1996) by acting as an intermediary link between the manufacturers and the ultimate consumers. Both are specialised in providing a wide range of services to the producers as well as the ultimate users by reducing the efforts required by the manufacturer in distributing product directly to the customers and providing a vast market coverage to his products (Fassin, 2009). They facilitate logistics by enhancing the efficiency in exchange and immediate delivery of goods to the consumers at places convenient and accessible to them (Sarma, 2007). Along with this, they provide after sale services and handle consumer grievances and on the same time acting as a communication channel by furnishing information about the products to the consumers on one hand, and the consumer feedback to the producers on the other hand (Fernando, 2009, p. 5; Kaptein, 2008; Whysall, 1998). The wholesalers being individuals or business firms sell goods in relatively large quantities to retailers. In addition, they assist retailers in advertising and

promoting the products and provide financial assistance as well by selling goods on credit and thus, helping retailers to operate with small working capital (Arbuthnot, 1997). A wholesaler, being the warehouse keeper (Wilkinson, 1979) protects the retailer from the risk of loss arising from holding large stocks of the product (Sarma, 2007; Whysall, 2000). The rise of consumer activism has led to scrutiny of business activities and thus, retailers being in direct touch with wholesaler and consumers, expected to behave ethically leading to long term relationship, loyalty, trust, and commitment (Sharma & Sharma, 2011). The relationships between retailers and wholesalers has, historically, been characterised by hard negotiations with each party pursuing their respective interests. In the fast paced and extremely competitive consumer goods market, retailers and wholesalers are increasingly recognising that the development and maintenance of sound relationship (Fynes & Voss, 2002) and cooperation (Gill & Allerheiligen, 1996; Napal, 2003) as a basis for good governance in retail sector.

LITERATURE REVIEW

In the annals of retailing ethics several researchers concentrated on ethical behaviour of retailers, salespeople, customers (Sharma & Sharma, 2013, 2012; Sarma, 2007; Lavorata & Pontier, 2005; Dubinsky, Rajan, & Huang,

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2004; Whysall, 1998) but none has yet measured retailers-wholesalers ethical relationships. Among the existing studies, Whysall (1998) explained the ethical relationship in retailing by citing examples of British companies facing problems of ethical nature and similarly, Whysall (2000) presented a theoretical framework of stakeholders in retailing and discussed the significance of these stakeholders by citing several ethical practices in retailing. In addition, Honeycutt, Earl, Myron, Zugelder, and Karande (2001) explored the perceptions of automobile salespeople about legal and ethical behaviour and its relationship with demographic variables such as age, education, and method of compensation. Further, Ergeneli and Ankan (2002) found no significant difference in ethical perceptions based on gender. In their study, Dubinsky *et al.* (2004) suggested some guidelines to retail managers regarding how to address the ethical issues of their salespeople and similarly, Lavorata and Pontier (2005) identified the ethical practices of convenience retailers and assessed the ultimate relevance of ethical marketing for a retailer. Sarma (2007) found salespeople facing ethical dilemmas in relation to different stakeholders. Sharma and Sharma (2009) investigated legal norms and ethical values in Indian retail sector and suggested for regular and effective vigilance over the illegal and unethical retail practices. Correspondingly, Sharma and Sharma (2011) viewed customers perceiving retailers as respectful, polite and giving due recognition but to some extent compromising with some issues like complete truthfulness, openness and responsiveness. In another attempt Sharma and Sharma (2012) studied various legal norms and ethical values in retail practices through the perception of consumers with special reference to shopping goods and Sharma and Sharma (2013) empirically examine the perceptions of manufacturers about ethical practices of retailers where manufacturers viewed retailers unethical in terms of payments of bills as they delay the payments creating a serious problems for the manufacturers for payments to suppliers. Finally, Sharma and Sharma (2014) found positive and significant contribution of retailing ethics to customer satisfaction. From the reviewed literature, it is evident that most of the studies conducted on retailing ethics examined the perception of retailers, managers, salespeople and customers but none has yet touched the perception of wholesalers about ethical retail practices. This study is, thus, an endeavour to fill the gap in the extant literature on retailing ethics. The study contributes conceptually and empirically to the literature and shall be highly valuable for the retailers, manufacturers, regulatory bodies, researchers and policy makers for fresh insights and strategic decisions. The study is based upon the following objectives:

- To examine the nature and extent of retailer-wholesaler ethical relationships.
- To explore the dimensions of retailer-wholesaler

ethical relationships.

- To suggest the various measures for enhancing retailer-wholesaler ethical relationships.

RESEARCH METHODS

Instrument

For gathering the primary data, a schedule was developed specifically for the study after needed review of literature and in consultation with the experts on the subject (Kaptein, 2008; Sarma, 2007; Lavorata & Pontier, 2005; Dubinsky *et al.*, 2004; Kujala, 2001; Whysall, 2000,1998). It comprised 9 items of demographics and 35 other items based on five point Likert scale ranging from 5 to 1, where 5 means strongly agree and 1 means strongly disagree (Annexure 1). The general information includes the age, qualification, experience, monthly sales, and profit of the wholesalers selected as respondents. The other items represent the ethical values of retailers in their dealings with their wholesalers as their contact with wholesalers influence their conduct with ultimate markets also.

Data

The responses were obtained from the wholesalers supplying merchandise to the retailers of Gandhi Nagar, a posh colony of Jammu city in J&K. A list of 100 wholesalers operating in different parts of Jammu city was framed and all were contacted but the final response was available from 70 wholesalers, with a response rate of 70%. The average age of the respondents came to be 44 years and about half (49%) of them having below average age. About 63% of total respondents found to be as graduate and above graduate. About one-third of the respondents have less than 10 years of experience as wholesaler and about 76% of them have less than five employees. About one-third of the respondents are found to be suppliers of grocery items to the retailers. The monthly sale of the respondents ranges from Rs 30,000 to Rs 1 crore and profit ranges from Rs 10,000 to Rs 10 lakhs (Table 1).

ANALYSIS AND FINDINGS

This section covers reliability and validity and confirmatory factor analysis which are discussed in detail as under:

Reliability and Validity

Before analysis the reliability and validity have been assessed. The reliability is the assessment of degree of consistency between multiple measurements of a construct

Table 1: Demographic Profile of Wholesalers

Variables	N	%	Variables	N	%
Age:			Experience		
Below average	34	49	0-10	22	31
Average	02	03	11-20	17	24
Above average	34	48	21-30	15	22
			Above 30	16	23
Qualification:			Religion		
Matriculate	14	20	Hindu	69	98
Under graduate	12	17	Sikh	01	02
Graduate and above	44	63			
Type of Products			Sales		
Grocery	21	30	Median: Rs 6,00,000		
Garments	12	17	Range (99,70,000)		
Medicines	07	10	Minimum: Rs 30,000		
Others	30	43	Maximum: Rs 1,00,00,000		
Employees			Profit		
0-5	53	76	Median Rs 50,000		
6-10	09	13	Range (Rs 9,90,000)		
11-15	02	03	Minimum: Rs 10,000		
Above 15	06	08	Maximum: Rs 10,00,000		

(Hair et. al., 2009, p. 161). To check the reliability, the Cronbach Alpha and split half values have been calculated (Malhotra, 2008, p. 285). The data were found reliable as mean values obtained from both halves of respondents quite satisfactory (Group I= 3.24 and Group II= 3.56). Moreover, Cronbach Alpha values also proved reliable as it came to be above 0.7 (Table 3). The validity is the extent to which a scale or set of measures accurately represent the concept of interest assessed in terms of content, convergent and discriminant analysis (Hair et al., 2009, p. 161). The content validity has been worked out by reviewing the extant literature and discussions with the experts and researchers. The convergent validity assesses the degree to which two measures of the same construct are correlated and it was found to be as satisfactory (Malhotra, 2008, p. 286) as the correlations between items were significant and their values were > 0.5. Moreover, commonalities of all the items were

also above 0.5, indicating convergent validity (Table 3). The discriminant validity is the degree to which two conceptually similar constructs are distinct. For proving this type of validity, the correlation between two constructs should be low, demonstrating one construct being distinct from the other constructs (Hair et al., 2009, p. 162). The correlations values of most of the constructs were < 0.3 proving the discriminate validity.

Exploratory Factor Analysis

The technique of exploratory factor analysis has been used for data summarisation through Statistical Package for Social Sciences (SPSS, 17 Version) with principal component analysis along with the varimax rotation. The exploratory factor analysis examines the underlying patterns

Table 2: Exploratory Factor Analysis

Rounds	Variance Explained	Items Emerged	No of Factors Extracted	Iterations	No of Items Deleted	KMO	Bartlett
1	70.71	34	9	10	8	.774	1483.23
2	69.80	26	7	7	2	.808	1042.10
3	67.99	24	6	8	2	.809	946.70
4	71.39	22	6	7	1	.811	893.08
5	68.44	21	5	6	-	.825	866.15

Table 3: Factorial Profile of Ethical Retail Practices: Wholesalers' Perspective

Variables	M	SD	FL	C	EV	VE	CA
F1 Fairness	3.61	0.12	.844	.813	8.04	31.80	0.93
Trust the retailers	3.66	1.01					
Commitment of retailers	3.64	0.92	.853	.810			
Satisfied with retailers	3.50	1.06	.806	.732			
Help when required	3.73	0.83	.740	.630			
Fair business practices	3.71	0.82	.804	.729			
Humbleness	3.70	0.84	.802	.736			
Sincerity	3.76	0.81	.838	.795			
Straightforward	3.49	1.00	.647	.500			
Keep promises	3.46	1.05	.770	.726			
No deception	3.44	0.97	.560	.557			
F2 Fair Billing	3.17	0.25			1.91	11.62	0.81
Payments of bills on time	2.96	1.30	.863	.816			
Exact amount as agreed	3.11	1.16	.868	.795			
Terms and conditions	3.44	0.96	.602	.595			
F3 Long Term Relations	3.04	0.45			1.72	9.19	0.61
Not criticising competitors	3.00	1.36	.760	.654			
loyalty	3.51	0.97	.631	.696			
Not shifting to wholesalers	2.61	1.15	.626	.500			
F4 Pricing and Promotion	3.14	0.38			1.49	8.33	0.64
No excuse for inventory	2.70	1.13	.618	.506			
Printed price	3.41	0.96	.797	.689			
Promotional expenses	3.30	1.24	.678	.543			
F5 Expiry Dated Products	3.40	0.05			1.23	7.50	0.60
Adequate margins	3.43	1.21	.802	.768			
Return of expiry dated products	3.36	1.01	.808	.808			
Grand M, SD, VE and CA	3.38	0.33				68.44	0.88

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

or relationship for condensing the whole data into minimum meaningful factors (Hair *et al.*, 2009, p. 128). The whole process of EFA is portrayed in Table 2. The items with factor loadings below 0.5 and Eigen value below 1 were ignored for the subsequent analysis.

With application of factor analysis, the data converged into five factors with 68.44% of variance explained (Table 2), viz., F1 (Fairness), F2 (Billing), F3 (Long term relations), F4 (Pricing), F5 (Expiry dated products). These are explained as under:-

Factor 1 (Fairness): Retailers purchase merchandise from wholesalers and their dealing with them is of great significance for long term sustainability. Fairness of retailers with wholesalers ensures easy and timely availability of products. This factor comprised ten items, viz., 'trust the retailers', 'commitment of retailers', 'satisfied with retailers', 'help when required', 'fair business practices', 'humbleness', 'sincerity', 'straight forward', 'keep promises', and 'no

deception'. The overall factorial mean (3.61) ranging from 3.44 to 3.76 indicates moderate level of ethical values being practiced by retailers in their dealings with wholesalers. About 80% of the total respondents found retailers trustful (3.66) and committed (3.64) and about 70% of them were satisfied (Table 3) in dealings with retailers. (3.50). Majority (81%) of the respondents experienced retailers as humble (3.70), straight forward (3.49), and sincere (3.76) because retailers, nowadays, are well aware that if they do fair dealings with their wholesalers, they enjoy more co-operation and assistance from wholesalers

Factor 2 (Billing): Retailers purchase merchandise from wholesalers, mostly on credit basis and are required to make payments within the stipulated period agreed upon. This factor is made up of three items, viz., 'payments of bills on time', 'exact amount as agreed', and 'terms and conditions'. The factor loadings range from 0.863 to 0.602. About half of the respondents found retailers delaying the payments in

the stipulated time period and making payments quite late on one excuses or another (2.96). The respondents found retailers unethical in terms of making payments on time which creates serious problems for the wholesalers who have to make prompt payments to the manufacturers and sometimes even advance payments for getting the regular supply of goods. About the same percentage of respondents (53%) experienced retailers paying the exact amount as agreed during credit sales (3.11, Table 3) as they know if they do not make exact payments, they may not get merchandise in future on regular basis.

Factor 3 (Long Term Relations): The retailers are supposed to build long term relations with wholesalers for better dealings like regular and timely supply of goods, less transportation costs, reimbursement of promotion expenses. This factor is comprised three items viz. 'not criticising other retailers', 'loyalty', and 'not shifting to other wholesalers'. The overall mean of this factor (3.04, Table 3) with 9.19% of variance explained indicates moderate level of focus on building long term relations with wholesalers. The Eigen value of this factor is 1.72 and factor loadings range from 0.626 to 0.760 and commonalities of all items found to be above threshold value of 0.5. About 74% of the total respondents found retailers loyal (3.51) only if they are given more commission and credit facilities but in case of cash sales and less margins they shift to other wholesalers (2.61). About half of the respondents found retailers sometimes criticising (3.00) their competitors with them to gain more importance in the eyes of the suppliers.

Factor 4 (Pricing): This factor has three items viz. 'excuse for keeping of stock', 'printed price', and 'promotional expenses'. Wholesalers sometimes put the products into smaller packs and they fix the price of these smaller packs and instruct the retailers to charge the printed price (Table 3). About 56% of the total respondents found retailers charging printed price (3.41) and about two third of them experienced retailers sometimes making lame excuses for keeping more merchandise in the retail store (2.70). About 55% of the total respondents experienced retailers not asking for reimbursement of promotional expenses (3.30) because in Jammu retailers are less promotion oriented, particularly dealing in convenience goods.

Factor 5 (Expiry Dated Products): This factor is made up of 'return of expiry dated products' and 'adequate profits'. One of the most important issues between the wholesaler and a retailer is expiry dated products, as some goods become outdated in the retail outlets. The reason may be less demand, change in consumer's taste and preferences, availability of product substitutes in the market etc. It is unethical not only but crime on the part of retailers to sell the outdated products to ultimate consumers. In fact, the wholesalers have made provisions for the retailers to return the outdated products as soon as possible, so that they can either be recycled or

disposed off by the manufacturers because passing on outdated products prove to be risky, unhygienic and unsafe for the consumers as well as all this tarnishes the image of the manufacturers and middlemen in the eyes of the consumers.

CONCLUSION

The study reveals that wholesales perceived retailers ethical in many aspects like their dealings, pricing, promotion, etc. but the mean scores are moderate and not so high indicating retailer-wholesaler relationship exists but the extent is not so good. The reason may be that there are large numbers of wholesalers and retailers do shift from one wholesaler to another after doing some unfair practices. The wholesalers viewed retailers most unethical in terms of billing as the payments are quite delayed and sometime even for many months, causing a serious problem for the wholesalers who are ultimately liable to their suppliers. The study suggests that retailers should have ethical orientation towards wholesalers and try to be loyal to them as strong relations are beneficial in the long term in terms of various facilities and services such as credit facility, retail outlet renovation, promotion charges and so on. The payments should be made on the stipulated time with exact amount which fosters buyer-supplier relationships. The wholesalers should develop a recovery mechanism for early payments of bills by the retailers through offering cash discount and properly formulating and implementing the credit policies.

Unique Contributions

By empirically exploring the retailer-wholesaler ethical relationship, this study bridges the gap in the literature on retailing ethics and shall serve as a milestone for the forthcoming researchers. The study shall be valuable for intermediaries to strengthen their relationships building trust, commitment and long term relations. It contributes as to the efficiency and effectiveness of the whole supply chainsystem and logistics. The study shall be a mechanism for the government bodies for improvement in the regulatory structure and outline for policy formulation and implementation.

Limitations and Directions for Future Research

Like each research study, the current study is also has certain shortcomings which in fact, serve as direction for the future research. Firstly, the present study examines the retailer-wholesaler ethical relationship from the respondents from Jammu city and the future research can be undertaken on the samples from various states. Secondly, retailing comprised

various stakeholders such as customers, employees, regulatory bodies, financiers, however, this study is confined to retailer-wholesaler ethical relationships. The upcoming researchers can dwell on perception of all constituencies and accordingly, a gap analysis can be performed. Finally, the current study has merely explored the factors representing retailer-wholesalers ethical relationships but the theoretical model has not yet constructed and validated due to the small number of respondents which can be researched by the potential researchers.

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ANNEXURE 1: MEASURES OF RETAILER-WHOLESALER ETHICAL RELATIONSHIP

1 You get the required information from retailers
2 Retailers follow your instructions
3 They are truthful in their dealings with you
4 They cooperate with you
5 They pay the bills on proper time
6 They pay the exact amount as agreed
7 They agree with your terms and conditions
8 They demand excessive commission from you
9 They demand more gifts from you
10 They build long term relations with you
11 Retailers deal with you politely and patiently
12 They are honest in dealing with you
13 They undertake their responsibility as a retailer
14 They give due respect and recognition to you
15 They criticise other retailers with you
16 They are loyal to you
17 In case of less commission retailers shift to other wholesalers
18 You trust your retailers
19 Retailers are committed to you
20 You are satisfied from your retailers
21 They help you as and when required
22 Sometimes they become irritable
23 They do fair business practices with you
24 They focus only on their interest
25 They give excuses for keeping inventory in the retail store
26 Retailers are humble to you
27 They are sincere
28 They charge the printed price
29 Your retailers are straight forward
30 They return expired dated products
31 They keep their promises
32 They don't deceive you
33 They introduce new brands of product
34 They demand excessive promotion expenses
35 Your retailers are ethical in dealing with you